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ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2377

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SCIENTIFIC, TECHNICAL COOPERATION WITH THE USSR

Sofia VUNSHNA TURGOVIYA in Bulgarian No 12, 1982 pp 2-6

[Article by Ivan Dunov, candidate of economic sciences: "Reciprocal Exchange of Scientific and Technical and Production Experience is an Important Pre-requisite for the Intensification of the Rapprochement and Integration Processes Between the Bulgarian People's Republic and the USSR"]

[Text] The process of comprehensive rapprochement and integration between the NRB [Bulgarian People's Republic] and the USSR is steadily developing and intensifying. It is a manifestation, on the one hand, of the objective trend toward internationalization of production forces and, on the other, the adopted strategic course charted by the communist parties of the two countries for rapprochement and cooperation in all realms of material and spiritual social life. In explaining the content of this process, Comrade Todor Zhivkov noted that the new stage in the development of Bulgarian-Soviet relations "consists of a qualitatively higher content of the processes of comprehensive rapprochement and integration between our peoples and countries and their enhancement to a level on which the development of socialist Bulgaria will have the same rhythm as that of the Soviet Union, as well as the same criteria and joint efforts and coordinated activities in the political, economic, ideological, scientific, cultural and military areas. In a word, we must develop our comprehensive fraternal cooperation in such a way as to act as a single organism, sharing the same lungs and irrigated by a single vascular system."<sup>1</sup>

This strategic line in Bulgarian-Soviet relations was further developed and enriched in the decisions of the 12th BCP Congress. The BCP Central Committee Accountability Report to the congress emphasized that "The intensification and expansion of our participation in the international socialist economic integration with the CEMA-member countries, on a bilateral and multilateral basis, and, above all, the comprehensive cooperation and rapprochement between the NRB and the Soviet Union, will remain the cornerstone of our foreign economic policy."<sup>2</sup>

Science and technology are an important realm of all-round rapprochement and integration between the NRB and the USSR. The stipulation that the process of comprehensive cooperation and integration with the USSR "is manifested particularly vividly in the scientific and technical area" and that "integration in science and technology determines the success of the entire process of all-round economic rapprochement" has strong foundations.<sup>3</sup> This is determined by



the fact that under contemporary conditions science is becoming the basic sub-unit in the reproduction process and the level of its development and technological application has a decisive impact on the efficiency of this process as a whole on the national and international levels. K. Marx himself noted that along with the level of development of large-scale industry, the creation of the true wealth of the nations becomes increasingly less dependent on the amount of working time and the amount of labor spent. Instead, it depends mainly on "the overall level of science and progress in technology or the application of such science in production."<sup>4</sup> From this viewpoint, the rapprochement and cooperation between the NRB and the USSR in science and technology is currently becoming and will particularly become in the future the main link within the overall process of comprehensive rapprochement and cooperation between the two countries.

However, we must not neglect the real fact that it is a question of comprehensive rapprochement and cooperation between two countries displaying tremendous differences in terms of territory, population and economic and scientific and technical strength. A short comparison shows that, compared with the USSR, the NRB has no more than 0.5 percent of its territory, 3 percent of its population, 7 percent of its national income, 2 percent of expenditures for the development of scientific research and design-engineering operations (NIPKR) and 1.5 percent of the number of its scientific workers.<sup>5</sup> The logical conclusion is that in the course of comprehensive rapprochement and cooperation between the NRB and the USSR, it will be necessary for our country above all to restructure and adapt its scientific and technical potential to that of the USSR. Naturally, this is a bilateral process, which practically means that in the course of its scientific and technical development the USSR as well will take into consideration the possibilities and needs of our scientific and technical potential. In this connection, Comrade T. Zhivkov stressed that "We have set ourselves the great, I would say the historical task and objective of developing a standard of relations between two socialist countries, one of which--the Soviet Union--is a giant, a tremendous and great country--while the other is a small country such as Bulgaria."<sup>6</sup>

Comrade T. Zhivkov's formulation included in the accountability report to the 12th BCP Congress on the timely procurement and fullest possible utilization of acquired foreign scientific and technical and production experience introduces qualitatively new aspects in the process of all-round rapprochement and integration between the NRB and the USSR in science and technology. In analyzing the basic factors of all-round intensification of public production in the NRB in the period of 1981-1985 and through 1990, he pointed out that "The next direction to be followed is the mass study, dissemination and application of leading experience--both domestic and foreign.

"This direction is of exceptional importance to us. It requires no particular capital investments while yielding fast socioeconomic results.... We can use the experience of the fraternal socialist countries and foreign firms."<sup>7</sup>

This stipulation demands a new approach to the process of procuring and making practical use of foreign scientific and technical and production experience,<sup>8</sup>

above all that of the USSR, for the Soviet scientific and technical and production experience is of decisive importance in the intensification of our NIPKR and the intensification of public production as a whole. Previous practical experience is quite indicative in this respect. Thus, for example, between 1976 and 1980 alone the NRB received along the line of international scientific and technical cooperation (MNTS) 1,144 pieces of scientific and technical documentation, including 856 from the USSR or about 75 percent of the total number. During that period of time 18,000 specialists were assigned to study foreign experience, to receive advice and to specialize; this included 6,091 specialists who were sent to the USSR, or 34 percent of their overall number. Our country was given scientific and technical assistance by 4,242 foreign specialists, including 2,542 Soviet specialists, or approximately 60 percent of their total number. Every year, the NRB has participated, on an average, in the development of about 2,500 topics and tasks; their annual average involving the USSR has been 650 topics and assignments, or 26 percent of their total number.<sup>9</sup>

The procurement and practical mastery of Soviet scientific and technical experience played a decisive role in the development of the modern Bulgarian economy. This is confirmed by the fact that about two-thirds of the new equipment currently used in the Bulgarian national economy was imported from the USSR. About 95 percent of the total import of tractors and 90 percent of the grain combines imported by Bulgaria came from the USSR. The capacities built with Soviet scientific and technical and production assistance today account for the production of about 95 percent of all ferrous and nonferrous metals, 60 percent of the electric power, 80 percent of the output of the petroleum refining and petrochemical industries and 55 percent of the output of the chemical industry.<sup>10</sup>

The procurement of existing foreign scientific and technical and production experience, that of the USSR in particular, raises several basic problems under contemporary conditions.

The first is optimizing the ratio between "domestic scientific research and design-engineering work--joint development--utilization of ready foreign scientific and technical experience."

In practical terms, such optimizing has several main aspects, as follows:

1. Domestic NIPKR in a specific area should take place only after an overall profound study of existing foreign scientific and technical experience, that of the USSR above all. This would save the country tremendous resources, effort and, above all, time. Yet the "time" factor is of decisive importance in terms of the efficiency with which the latest scientific and technical achievements are utilized. At this point, however, the question of the extent of the novelty and relevance of existing foreign scientific and technical and production experience procured arises. Worldwide practice proves that even "the latest" patents and licenses have fallen behind compared with the scientific and technological level reached in the corresponding area by 2-3 or more years at the time of sale by their owners.<sup>11</sup> The logical conclusion is that any specific procurement of existing foreign scientific and technical experience

requires comprehensive and profound technical and economic, qualitative and social substantiations. This would provide a real guarantee against importing morally obsolete scientific and technical achievements, which are a prerequisite for substantial economic losses on a national economic scale.

2. Frequently, scientific and technical cooperation and joint developments are the only possible real variant leading to the necessary scientific and technical results. This trend will intensify its manifestation in the future with the intensification of the international socialist division of labor and socialist integration in science, technology and production. This particularly applies to smaller countries of lesser economic and scientific and technical power such as the NRB, who lack adequate material, financial and intellectual resources for engaging in effective scientific research along the entire line of contemporary science and acquiring the necessary foreign scientific and technical experience.<sup>12</sup>

This leads to the problem of selecting a partner (partners) considered most advanced in the respective area and securing the respective organizational-economic prerequisites for the successful and prompt completion of the necessary NIPKR.

It is clear that the process of optimizing the "domestic NIPKR-joint developments-utilization of existing foreign scientific and technical experience" ratio is dynamic and requires the flexible handling of existing resources and their restructuring and expedient concentration.

The second is the creation of efficiently operating systems for scientific and technical information, which would ensure the timely accessibility of the latest foreign, Soviet in particular, scientific and technical and production experience.

The "information problem" is acquiring increasingly complex parameters under contemporary conditions. Worldwide practical experience proves that nearly two-thirds and, sometimes even more of all submitted requests for patenting inventions prove to be a repetition of already resolved problems. Furthermore, according to many specialists, no more than 15 to 30 percent of the scientific and technical accomplishments are applied in the production process, while the balance remains unused for one reason or another.<sup>13</sup> All of this indicates that the prompt procurement of the latest foreign scientific and technical and production experience, that of the USSR in particular, depends on the optimality of the Bulgarian scientific and technical information system. In this connection, the BCP Central Committee Accountability Report to the 12th party congress noted that concern should be devoted in the forthcoming years to ensuring a decisive improvement in information services and, particularly, the use of scientific and technical information. Essentially, we must create an information industry with cost effective units, which will produce, purchase, process for practical use and sell finished information products. They should engage in intensive international trade and exchange in equipment, technological and organizational developments, licenses, engineering services, etc.

The development of an optionally functioning system for gathering, processing and distributing (among the respective consumers) of scientific and technical information is possible only in the course of cooperation and integration with the other CEMA-member countries, the USSR above all. The development of deep ties between our scientific and technical information system with that of the USSR will be a real prerequisite for gaining access to the latest achievements of global science and technology. Currently, the organizational step leading to the creation of an international system for scientific and technical information, in which our country is actively participating, has been already completed in its essential lines within CEMA. More than 120 national information organs of CEMA-member countries are participating in the implementation and development of this system; seven specialized information subsystems have been created within the international scientific and technical information system.

The third feature is improving the means for procuring existing foreign scientific and technical and production experience.

The existing practice of cooperation and integration between the NRB and the USSR led to the development of several basic means of procuring Soviet scientific and technical and production experience, as follows:

Importing from the USSR scientific and technical documentation, patents, licenses and know-how or of new labor means and objects developed on their basis, new technologies, materials, and new organization of the production and labor process;

Exchange of specialists for purposes of consultation, specialization and study of existing experience;

Joint developments and work on specific scientific and technical problems and topics.

Under the conditions of an all-round rapprochement and cooperation between the NRB and the USSR, all of these methods will be used in gaining access to existing Soviet scientific and technical and production experience. However, gradually the center of gravity will shift toward most progress methods such as scientific and technical cooperation and joint developments and the establishment of joint scientific research institutes, laboratories, bureaus, scientific-production associations, and others. Direct relations between respective ministries, departments and economic and scientific organizations will be intensified steadily. These are the most efficient means for the study and procurement of existing Soviet scientific and technical and production experience. Estimates indicate (although rough, due to the lack of developed and officially adopted methods for determining the economic efficiency from the participation of the country in international scientific and technical cooperation) that the efficiency rating of joint developments is higher than the efficiency coefficient of purchased scientific and technical documentation by a factor of more than 20; it is higher than the efficiency coefficient based on the study of foreign scientific and technical experience by a factor of more than 10 and the coefficient of efficiency of scientific and technical assistance given to our country by a factor of more than 8.<sup>14</sup>



The organizational forms for procuring existing Soviet scientific and technical and production experience should not be considered as something frozen and invariable. Practical experience is infinitely richer and will indicate to us in the future a number of new features in terms of its optimal organization and management.

The fourth central problem related to the optimal use of existing foreign scientific and technical and production experience, that of the USSR above all, is its accelerated and mass application and practical use.

The study of existing practical experience over the last five-year plan (1976-1980) shows that the main weakness in the use of foreign scientific and technical and production experience is its slow application. This is clearly shown in the table below.

Speed of Completion and Practical Mastery of Scientific and Technical Results in the MNTS Process

	Total for the country in percent					
	1976	1977	1978	1979	1980	1976-1980
Scientific and technical documentation applied in terms of total received	38	35	47	21	38	35.8
Applied in terms of proposals submitted by Bulgarian specialists assigned to other countries for the study of foreign experience, and for consultation and specialization	38	38.7	35.2	44.3	38.0	38.8
Completed developments based on bilateral scientific and technical cooperation out of the total number of joint developments	13	18	12.7	16	23	16.5
Applied, of the overall number of completed joint developments based on bilateral scientific and technical cooperation	98	--	48	63	82	72.7

Computed by the author according to the "Scientific and Technical Cooperation" bulletin, published by the Council of Ministers KESSI for the respective years.

That is why the BCP Central Committee Accountability Report to the 12th party congress stressed the need to ensure a turn in the practical utilization of scientific and technical achievements.

The practical use of existing Soviet scientific and technical and production experience is the meaning and purpose of its procurement. Worldwide practical experience proves convincingly that technological advantages go to those who are the first to use the latest scientific and technological achievements, rather than those who are the first to obtain them. The Japanese example is quite indicative in this respect.<sup>15</sup> Hence, it follows logically that we must develop an adequate economic mechanism which would stimulate and force producers to apply on an accelerated and mass basis existing foreign scientific and technical and production experience they receive, the experience of the USSR in particular. Comrade T. Zhivkov stressed on this occasion that "It is high time to develop an application mechanism based on the principles of economic incentive, which would stimulate and force both scientific collectives and consumers of scientific and technical results to apply the latest contemporary achievements."<sup>16</sup>

The development of an effectively operating mechanism for the accelerated mass use of available scientific and technical and production experience received is a complex and difficult problem. Its successful solution depends on a set of objective and subjective factors--economic, organizational, social and many others. Usually, three basic prerequisites must be present for the successful application and production mastery of a specific scientific and technical result:

- a. Skilled scientists and specialists in the respective field;
- b. The necessary scientific-technical, experimental and production base; and
- c. Production experience of the workers directly engaged in the production process organized on the basis of the respective scientific and technical achievement.

These three basic prerequisites are not always present simultaneously, as a result of which the mastery of a scientific and technical achievement is either delayed or becomes impossible in general. This contradiction, particularly in the case of smaller size and low economic and scientific and technical power countries such as the NRB can be surmounted in the course of scientific and technical cooperation and integration with the other CEMA-member countries, the USSR above all. The combination of the material, financial and intellectual resources of the two countries creates optimal conditions for the effective functioning of the "science-technology-production-marketing" cycle on the national and international levels. Available positive experience is quite indicative in this respect. Thus, for example, scientific and technical and production cooperation with the USSR was the only possible real variant for the development of our nuclear power industry, which is having and will have an increasing influence on the structure and efficiency of the national energy balance. In the course of such cooperation adequate conditions and prerequisites were created for surmounting the contradiction between requirements and

possibilities in terms of developing a scientific and technical and production base for the nuclear power industry. Along with technological equipment, our country received from the USSR direct scientific and technical and production assistance provided by qualified scientists and specialists in this area, without which the development of a nuclear power industry in our country would have been impossible. Furthermore, virtually all Bulgarian skilled scientists and specialists in nuclear power industry received their specialized and practical training in the USSR. Still with Soviet aid, the NRB set up a school center for training its own cadres for the development of the nuclear power industry.

The main thing now is to create conditions for the most efficient use of the existing and newly developed scientific and technical and production base in the country with a view to ensuring the accelerated mass application of the available Soviet scientific and technical and production experience given to us. This presumes that in planning the receipt of available Soviet scientific and technical and production experience to focus the main attention on the final, the concluding stage, i.e., the application process. This will be consistent with the requirements of the new economic approach and mechanism for national economic management, including the management of scientific research and development. It is no accident that in outlining the basic and immediate tasks in the field of present and future economic policy, Comrade Todor Zhivkov pointed out that one of the main among them is "application, application and once again application of the latest achievements of scientific and technical progress and leading foreign and domestic experience."<sup>17</sup> The accelerated and mass application of the ready Soviet scientific and technical and production experience is a powerful factor in the all-round intensification of public production in the NRB and in comprehensively upgrading its socioeconomic efficiency.

The exchange of scientific and technical and production experience between the NRB and the USSR will play an exceptionally important role in increasing the processes of rapprochement and integration between the two countries today and particularly in the future. It has and will have an increasingly intensified impact on these processes and is one of the main factors in the implementation of the strategic task of comprehensive intensification of public production in our country in accordance with the resolutions of the 12th BCP Congress.

#### FOOTNOTES

1. Zhivkov, T. "Druzhiba ot Vekove za Vekove" [Friendship Through the Centuries], Vol III, p 91.
2. Zhivkov, T. "BCP Central Committee Accountability Report to the 12th Congress and Forthcoming Party Tasks." Sofia, 1981, p 54.
3. Filipov, G. "All-Round Economic Rapprochement With the USSR--A Decisive Prerequisite for the Steady Economic Upsurge of the NRB." NOVO VREME, No 10, 1977, p 39.

4. K. Marx and F. Engels, "Such." [Works], Vol 46, Part II, p 192.
5. Computed by the author, based on data in the "Statistical Yearbook of the NRB" and "The USSR National Economy" for 1981.
6. Zhivkov, T. "Druzha ot Vekove za Vekove," Vol III, p 519.
7. Zhivkov, T. "BCP Central Committee Accountability Report to the 12th Congress and Forthcoming Party Tasks." Sofia, 1981, p 26.
8. In this case available scientific and technical and production experience means available scientific and technical documentation, patents, licenses, or know-how, or else, the same could be materialized in the shape of new labor means and objects, new technologies and materials and a new organization of labor.
9. Computed on the basis of data in the "Scientific and Technical Cooperation" bulletin, issued by KESSI of the Council of Ministers for the respective years.
10. For greater details see M. Savov, "Razvitie na Vunshnata Turgoviya Mezhu NRB i SSSR v Usloviyata na Integratsiyata" [Development of Foreign Trade Between the NRB and the USSR Under Integration Conditions], Varna, 1977, p 67 and following.
11. "Nauchno-Tekhnicheskiy Progress i Sotrudnichestvo Stran SEV" [Scientific and Technical Progress and Cooperation Among CEMA Countries]. Moscow, 1973, p 139.
12. The data show that outlays for science doubled each 5.5 years and account for about 4-5 percent of the national income of the highly developed countries ("Integratsionnyye Protsessy v Mirovom Sotsialisticheskom Khozyaystve" [Integration Processes in the World Socialist Economy], Moscow, 1981, p 186); in the NRB they reach approximately 3 percent of the national income (based on the "Statisticheski Godishnik na NRB" [NRB Statistical Yearbook] for 1981). Globally, their annual amount is about \$150 billion (RESEARCH MANAGEMENT, 22, 1979, No 6, 3-4).
13. VUNSHNA TURGOVIYA, No 3, 1978, pp 7-8.
14. Computations made by the author based on data of the "Scientific and Technical Cooperation" bulletin of the KESSI of the Council of Ministers for the respective years. The efficiency coefficient of the individual forms of participation of the country in the MNTS is based on a comparison between the expected economic effect of the participation in the respective MNTS form and the required outlays, published annually in said bulletin. The computed coefficients characterize the economic effectiveness of the various forms of participation of the country in the MNTS as a whole rather than merely the economic efficiency of bilateral scientific and technical cooperation between the NRB and the USSR.



15. The data indicate that between 1953 and 1973 the average time for the application of new developments was 3.4 years in Japan, 5.2 years in the FRG, 7.4 years in the United States and 7.7 years in Great Britain (PLANNED INNOVATION, 2, 1979, No 1, London, 6).
16. Zhivkov, T. "BCP Central Committee Accountability Report to the 12th Congress and Forthcoming Party Tasks." Sofia, 1981, p 68.
17. Ibid., p 56.

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## POTAC OUTLINES ECONOMIC PROSPECTS FOR 1983

Prague NOVA MYSL in Czech No 1,1983 pp 25-35

[Article by Svatopluk Potac: "A Year of Progress to a Higher Pace of Economic and Social Development"]

[Text] The Seventh CPCZ Central Committee Plenum held on 24-25 November 1982 discussed and adopted resolutions for the breaking down and the assurance of the 1983 state plan for economic and social development. Given the objective of progressing to a higher pace of economic development under substantially more complex circumstances, this year has exceptional importance for future years as well. The formulation stage of the plan has already shown that the basic conditions, the economic factors and the material preconditions will all be more severe and rigorous in this third year of the Seventh 5-Year Plan than in the preceding 2 years.

Developments to date have conformed quite closely to the judgment of the 16th CPCZ Congress, namely that substantially more difficult conditions than those of the seventies may be expected during the implementation of Main Directions in the Economic and Social Development of the CSSR in the 1981-1985 period. Developments to date point to significant changes in both internal and external conditions.

This was particularly the case last year. Nor is the prognosis for this year very inspiring. It is impossible to determine precisely internal and external conditions on whose basis to adopt necessary measures, because there is not an unambiguous dividing line between the two. They intermingle with each other.

The decisive change in internal conditions consists mainly of the exhaustion of extensive factors of growth along with a number of complicating influences. The progressive exhaustion of these extensive sources was not accompanied by a concurrent transitional process to intensive developmental directions. This latter process has been slow and inadequate. Given the slowdown in economic development, fixed costs and other factors have weakened the impact of efficiency measures.

The costs of obtaining fuel and energy resources, domestic raw materials and foodstuff supplies, and of investment are continually increasing. In some cases, it is not even physically possible to cover the increased requirements.



The priority given to the use of resources in foreign areas in the interest of the payments balance and the renovation of external economic equilibrium, reduces over the long term the resources available for domestic use. The preservation of the standard of living and above all of public consumption, which to a great extent develops autonomously, governed by legal regulations and other factors, is being assured at the expense of accumulation, and especially of investment. This, combined with the assurance of a modest increase in energy resources and the investment resources already committed to already established production programs consume a large portion of investment resources. This understandably narrows investment possibilities in the areas of support for cost effective and efficient production structures, for increasing export efficiency and ongoing, mass-based flows of innovation as the main sources of growth. Nor have efficiency and cost-cutting measures of a non-investment character as yet become very important techniques for the formation of new resources.

Important changes have occurred and new realities have developed in the external conditions of our economic development. Given the significant degree of openness of our economy to foreign trends, any external changes are manifested strongly in our national economy and exert a significant influence on our long-range economic intentions and goals. World developments are under the long-range influence of two factors of a strategic nature. The first of these is the monetary crisis which led to the disintegration of the international monetary system at the beginning of the seventies, and which was followed by a departure from exchange-rate parity in favor of their unregulated development, high inflation, the destabilization of foreign currency and credit markets, high interest rates, and a lack of trust and caution by banks. This is exerting a significant negative influence on our economic development, and the unpredictability of future monetary developments is resulting in complications. The concurrent and long-standing economic stagnation in the developed capitalist countries has intensified competition in markets for finished goods, slowed down international trade and, in many countries, led to changes in economic policy so as to adapt to the new situation. This is the second factor. Price stability of raw materials was disrupted by drastic increase in the price of crude oil in the form of two price shocks, which led to increased prices for other raw materials. This certainly had an influence on, and stopped, the conjunctural development of the early seventies.

With regard to the socialist countries, these factors were joined by increased commercial, financial and credit discrimination, carried out by a number of capitalist countries at the behest of the United States. This is politically motivated discrimination. Because of it, the balance of payments in hard currencies has become the touchstone of the concept of the state plan and of our economic policy for 1983. Two exceptionally serious constraints have been placed on our hard-currency balance of payments. One is to maintain those imports essential for the assurance of planned tasks given significant difficulties with exports, and the second is to maintain our capacity for payment. All of this, in view of the more rapid indebtedness process, reduces the foreign-currency resources which could make possible the further development of both industrial and agricultural production and the improved satisfaction of consumer demand.

The current world situation is very chaotic and complex and is bringing about a general slowdown in economic activity, international trade and an advantageous international division of labor. This slowdown in economic development is common to the industrial countries as well as to developing and other countries. It varies according to the conditions of each country and according to its degree of dependence on other countries. The prognosis of the Bank for International Payments in Basel for the first half of the eighties is for an average annual growth of gross domestic product in the countries of the EEC of only 1.2 percent, and average annual wage increases of only 0.8 percent. The CEMA countries are projecting a substantially more rapid rate of development, even under much more difficult conditions.

These rapid and important changes in the internal and external circumstances of our economic development are having a direct influence on the intentions and conception of individual annual state plans. These can no longer represent a simple "averaging" of the 5-year objectives. Each year has its own specific character. The time of long-term continuity for economic development and of a fundamental stability in 5-year plans has ended. The changeability of conditions has become established as an objective long-term trend. This is the basis of our current economic policy, economic measures, and the practical activities of managerial organs.

A characteristic feature of the first year of the Seventh 5-Year Plan was the preparation for a shift from the Sixth 5-Year Plan to the demanding circumstances of the first half of the eighties. The 1982 plan, with its orientation toward a more consistent process of intensification and the adaptation of the economy to a totally new situation, resolved on a one-time basis several serious national economic problems. These included, above all, a reduction in enriched fuel resources by 3.5 million tons of standard fuel [t<sub>imp</sub>], the long-standing imbalance between plant and livestock production accompanying the failure to fulfill the plan for plant production, especially that for grain, by 1.6 million tons, and the reestablishing of external equilibrium especially in hard currencies, in connection with the sharp increase in indebtedness in all years of the Sixth 5-Year Plan.

The pace of economic development, which had slowed down in order to assure the smooth functioning of the economy, has been adapted to the solution of these pressing problems. Attention has been called to this situation by the requirement of implementing intensification, greater effectiveness, and increasing the quality of all work. The process of bringing value in line with world standards has been initiated. The prices of fuels, energy, raw materials and other inputs have been raised to the level of their average purchase prices.

The intentions and main objectives of the 1982 plan were, on the whole, fulfilled, thereby creating a starting point for moving to a faster pace of economic and social development in 1983.

The primary characteristic of the 1983 plan is the spreading of the overall pace of economic growth while strengthening internal and external equilibrium. This plan is founded on the results achieved last year, is based on actual possibilities and takes account of changes in the original circumstances.

The concept of the state plan for economic and social development for the current year is characterized by the priority it gives to equilibrium over forward movement. The increase in the growth rate, in terms of the average of the previous 2 years, is expressed by an increase in social product of 1.8 percent and of national income by 2 percent, i.e., by Kcs 10 billion (in constant 1977 prices).

Macrostructural changes continue, above all in sectors that are fuel-, energy-, imported raw materials-, and materials-intensive, and in those sectors which exert a strong value enhancing influence, utilize domestic raw materials and which cover the important needs of the national economy.

The necessity of convincingly resolving the taut situation in the area of external economic relations has made it necessary to institute, right in the first years of the Seventh 5-Year Plan, a significant reduction in the amount of national income allocated to domestic use. In 1983 as well, it will be essential to continue this policy. Increased resource formation, however, will make it possible to moderate to some extent the consequences implied by this plan for internal consumption. Forty percent of any increases in national income will be allocated to the implementation of the plan for reestablishing external economic equilibrium and 60 percent to the expansion of the scope for the domestic utilization of national income. Last year, the priority nature of the resolution of the situation in our external economic relations gave this total precedence over internal consumption.

This increase in resources for internal use will be accompanied by a still more rapid rise in nonproduction consumption of 2.1 percent. This is primarily in the area of public consumption, and will draw resources away from plans to reduce investment project volume and to slow down inventory growth. For this reason the accumulation fund in 1983 will decrease 0.9 percent. An increase in the pace of economic growth is assured by a directive of the 16th CPCZ Congress, which decreed that even in view of significantly more difficult internal and external conditions, the high standard of living that has been achieved must be maintained and its quality raised in direct relation to the performance achieved in the national economy.

Efforts to increase the efficiency and cost-effectiveness of the reproduction process, and especially to lower the material and wage intensiveness of production as expressed in a higher return on assets and greater profitability all share in the formation of new resources.

The primary source of new resource formation should be labor productivity, which will increase 1.6 percent and will account for 82 percent of the increase in national income. It is expected that the improved management system will have a greater impact than before on the development of employment in the economic sphere. The number of workers in the entire national economy will increase 36,000, and 20,000 of these new positions will be in the production sphere.

This movement to a reestablished high growth rate will be assured above all by an increase in industrial production, which this year is to increase 2.4

percent—that is, at about double the average rate it achieved in 1981-1982, an increase in construction output of more than 2 percent and of agricultural production by 2.7 percent. A critical role is being played in this by an intensification of the entire reproduction process that is focused in the following areas: the implementation of scientific and technical progress, a conservation-conscious fuel and energy program, the achievement of a more rational and socially necessary production structure and utilization of output, and our more efficient incorporation into the international division of labor, and especially into the process of international socialist economic integration. The plan emphasizes the qualitative aspects of development, the valuation procedures, and is in no sense concerned with quantitative development objectives that would consist of increasing the amount produced without regard for the effective use of this output.

Industry continues to play a key role in the fulfillment of the fundamental intentions of the plan. Structural changes of an interbranch and sectorial sort relate primarily to the fuel and energy generation, metallurgy, building material and certain other sectors which are very demanding of fuel and energy resources as well as quite dependent on several imported raw materials. More rapid development is planned for the general engineering sectors (4.8 percent), above all in the electrotechnical industry (7.4 percent) and in those sectors which, in terms of the parameters that they have achieved and the quality of their products, have assured sales levels while at the same time achieving a high valuation of the energy, raw materials and materials that have been consumed. Production included in state target programs will increase by more than 14 percent. This is mainly a question of nuclear energy generation, aircraft production, electronics, truck production, color television production, robot production, etc. Among those industries with a high growth rate will be the wood-processing industry, which depends on a domestic raw materials base, and the pharmaceutical industry. In light industry, production will increase 1.4 percent, and 0.8 percent in the chemical industry. Growth in these industries is limited by the importing possibilities for raw materials and other inputs and by the feasible applications for these products on foreign markets.

The feeding of people has a strategic importance for all countries, and the assurance of this is an important component of the overall standard of living in the CSSR. In the 1982 and 1983 plans, the consequences of the failure to fulfill the plan for plant production have been resolved. Price, wage and social measures which have been adopted in conjunction with the introduction of a new management system in agriculture and the resolution of the long-standing imbalance between plant and livestock production should result in a condition of equilibrium on the market for foodstuffs. The level of plant production will be 2.5 percent higher in 1982 than in the years 1978 and 1980.

The plan for agricultural production stems from the resolution of the Fourth CPCZ Plenum in 1981 and assures, under the conditions of 1983, a continuation of the policy of the 16th CPCZ Congress of achieving self-sufficiency in food by further increasing the efficiency of agricultural production. It sets the task of achieving a 5.6 percent increase in plant production and a moderate increase in livestock production. The priority accorded to plant production



is designed to speed up the process of assuring an adequate amount of the fodder base with domestic resources and reducing as much as possible demands for importing grains and fodder, thereby freeing up resources within the balance of payments for use in meeting more pressing needs of the national economy.

The requirement of assuring planned foodstuff consumption must be pursued by supplying organs and organizations and by agricultural enterprises and organizations through the utilization of all their underutilized capacity and available resources. Fodder resources make it possible to increase livestock production and the usability of livestock. In terms of food supplies, we are counting on measures adopted to support the activities of small-scale husbandmen, gardeners and small-plot farmers, and are projecting a 3 percent increase in food deliveries to consumer goods inventories.

Providing the national economy with fuel and energy resources is one of the most difficult tasks of 1983. The amount needed--103 million tnp--has remained at the 1980 level. In view of the need to speed up economic development, this creates a new situation in comparison with the Sixth 5-Year Plan, when these resources increased 2 million tnp annually. Imports of energy above the current levels are not economically feasible. There is, to be sure, crude oil available on world markets, but given its price and the current high energy intensiveness of our economy, it would not be economical to produce either electricity or heat with it. This means that imports of basic fuel and energy resources will represent a 36.1 percent share of domestic consumption and will again be provided through deliveries from the Soviet Union.

Domestic sources constitute the foundation of our fuel and energy balance. Coal extraction is projected to reach 124 million tons, 97 million tons of which will be brown and lignite. This amount represents a 1.5 percent increase over last year's performance. The completion of the Prunerov II electric power plants marks the end of an era in which increases in the generation of electricity were assured by a base of coal. Given the stagnation of electricity generation in hydroelectric power plants, future increases will come solely from nuclear power plants, which are becoming our primary source of energy generation, and which will contribute 8.5 percent of total electricity production this year.

An increase in sources for energy generation has its own economic potential and technico-organizational limits. Our consumption during production of primary energy resources, excluding, that is, individual consumption, is 50 and sometimes 100 percent higher than in other economically mature countries per unit of comparable net output. On a per capita basis, we generate 4,798 kilowatt hours annually, which places us in one of the leading positions in Europe. Overall, our economy is well outfitted with energy-generation sources.

The main paths to a resolution of this situation lie in the rationalization of consumption, the mobilization of underutilized capacity, the use of energy-efficient appliances, machinery and the like, and in structural changes. This is currently one of the key economic and political tasks. The 1983 plan is based on the assumption that conservation and rationalization measures will

result in savings of 2.5 million tnp. According to the resolution of the 10th All-Union Congress, this objective should be exceeded by 0.5 percent through increased employee initiative. The Presidium of the Party Central Committee resolved in this regard to carry out throughout the national economy a nationwide inspection of fuel, energy and propellant conservation. It further resolved to complete work on the state target program for rationalization and conservation in the consumption of fuels and energy, especially with regard to assuring its implementation in the upcoming years of the Seventh 5-Year Plan. No economy can permit itself to tie up expensive fuel in inventories and nonutilized investment projects, or to sell it cheaply in the form of finished products.

In terms of duplication of effort, the reallocation of resources and labor from the area of the assurance of an increase in new fuel and energy sources to the area of rationalization and conservation remains a serious problem.

External economic relations are a priority area for the 1983 plan, because in view of the high level of openness of our economy to foreign trends, these relationships predetermine the basic national economic balance of the plan, and especially the formation and utilization of the national income. As conceived, the plan provides a basic equilibrium of our payments balances with socialist countries and continues on the path we have embarked upon of gradually restoring equilibrium in the hard-currency area as well as further reducing our level of indebtedness.

Foreign-trade turnover with the socialist countries will increase more than 8 percent in current prices. We are projecting a continuation of changes in the structure of production, with the share of the general engineering sector as the basic producer of foreign currency increasing. The volume of fuel and energy imports will remain at basically the level of last year.

In certain CEMA countries, the growth rate of national income, industrial production and agricultural output in the first 2 years of this 5-year period have been lower than projected by medium-range plans, foreign trade turnover in constant prices has not increased and a simultaneous slowing down is becoming evident in the pace of mutual trade, both in imports and exports. Nevertheless, in 1983, too, the socialist market will be a fundamental stabilizing factor in our economic development. To a much greater extent, we must utilize the opportunities afforded us by the international division of labor with the USSR and other countries of the socialist community, particularly in view of the attitude of certain capitalist countries.

The area of relations with nonsocialist countries is very complicated. We are assuming that difficult and complex conditions will persist in the coming year. The continuing crisis development in capitalist countries has significantly affected world trade. Its pace is declining. Marketing conditions are becoming more intense, not only for machinery and equipment, but the market for consumer goods is also declining seriously, and sales of raw materials and semifinished goods are stagnating. Opportunities are narrowing, particularly for the export of lower quality goods with inferior technicoeconomic parameters.

This is combined with discriminatory measures in the economic policies of some Western countries. All of this must necessarily be integrated into the conception of our foreign-trade policy.

We assure changes in the structure of exports through the plan. The plan projects a decline in exports of energy, fuels and metallurgical materials, and increased exports of products of the machinery and wood-processing industries. The export of products of the light industrial sector is also adapting to the actual situation on foreign markets. There is significant underutilized capacity in the area of increased export performance. This may be achieved through higher foreign-currency valuation of our exports, supported by product innovations, higher quality and improved servicing and commercial services. Analyses that have been carried out indicate, for example, that the increase in the foreign prices of our machinery exports over the past 10 years do not reflect any of the contributions of research and development, in contrast to our competition, and that these prices have incorporated only about two-thirds of the inflation that has occurred over this period.

The volume of exports and foreign-currency earnings from exports also determine the scope of imports, because realized exports will create a maximum level of possible imports to assure all requirements of the economy. So far, the issue of our greater penetration of capitalist markets has been understood almost exclusively as a problem of export performance--the volume, assortment, quality and competitive abilities of our products. However, as a consequence of the attitude of several capitalist countries, a situation has developed in which the problem of commercial and political interchange has come to the fore to a greater extent than previously. Our production and especially our foreign-trade operations must take this into account and overcome these barriers through a closer linking of commercial export and import policy.

In accordance with the conception of the Seventh 5-Year Plan and with the resources designated for the utilization of national income, the scope of investments and their share of generated national income will continue to decline to 26.7 percent, in comparison to 27.7 percent in 1982 and 29.7 percent in 1980. The volume of investment projects will decline 1.4 percent, with most of the decline in construction projects.

These projects are oriented toward the assurance of the critical structural considerations, above all in the field of fuel and energy generation, toward the implementation of state target programs, the agrocomplex, the strengthening of the export capability of production, effective and progressive modernization, reconstruction, and toward projects with a rapid payback period. Newly initiated construction projects form the foundation of structural changes, which are a component of the process of the intensification of the national economy. The efficiency of a set of new industrial construction projects, as measured by the return on capital assets, is projected to increase, in comparison to current levels, by 57 percent, and labor productivity by 65 percent.

A continuation of the policy of strictly regulating construction projects is leading to certain positive results in terms of a reduction in above-average noncompletion rates and a shortening in construction schedules. This is evident, among other ways, by the fact that in the first 3 years of the Seventh 5-Year Plan leftover budgeted costs will decline Kcs 50 billion, i.e., by almost 30 percent, and construction time will be reduced by a total of more than 1 year.

Operations are to begin at 105 important facilities, which requires a strengthening of the completion capabilities of investment contractors. Problems in capital construction, which include inadequate preparation for investment projects and inconsistent implementation, lead to an increase in budgeted costs, higher noncompletion rates, and delayed operational startup of facilities, with a consequent worsening of national economic efficiency.

The complete elimination of these shortcomings constitutes an important source of further increases in efficiency.

In the area of living standards, despite more difficult conditions we are proceeding on the basis of the directive of the 16th Congress and assuring an increase in personal consumption of 1.3 percent. Money incomes of individuals will increase by 2 percent, and public incomes by 3.7 percent. We are projecting that the average monthly wage in the national economy will increase 0.7 percent, reaching more than Kcs 2,820. Their further increase will depend on how well enterprises and organizations increase their performance and labor productivity. A precondition for an equilibrium condition on the domestic market is the assurance of a link between the development of wages payable and achieved economic performance and increased labor productivity.

In accordance with the planned development of individual money incomes, an increase is projected in retail trade turnover of Kcs 5.3 billion, which will include a more rapid increase in deliveries and sales of industrial goods than of foodstuffs. The exceptional difficulty of this directive is further increased by the necessity of changing the structure of deliveries for the domestic market so that demand can be satisfied more smoothly and better than last year. The plan, therefore, provides for a structure of industrial goods deliveries that will improve the situation in supplying the market with product assortments that have been in short supply, and will assure the smoother satisfaction of demand for standard products in the lower and middle price brackets. Simultaneously, however, the plan increases the supply of high-quality goods and of technically advanced products, and makes it possible to expand deliveries of luxury goods. Measures adopted at the Sixth CPCZ Central Committee Plenum in 1982 will become evident in the development of paid services.

The plan also projects a further increase in resources allocated to the public consumption of the population. This year these resources will exceed Kcs 10,300 per capita and represent an important element in strengthening the social certainties of our people. In all areas of public consumption, the essential resources are assured by our society for the coverage of housing construction needs, the school system, health care, balanced development in the



area of culture, and other components representing a broad range of free or heavily subsidized services for the population.

Experience indicates that in future years it will be necessary to clarify demands on and attitudes to the environment, so that the situation in this area not become any worse.

The above directions prove that even under changing conditions we are creating in the plan the preconditions for a corresponding development of the living standard of the population. It will be a task for all organs and organizations to transform these preconditions into reality through the comprehensive fulfillment of 1983 plan tasks.

The fulfillment of the objectives and targets of the plan for this year under substantially more difficult and complicated conditions requires more than previously an improvement in quality at all levels of planning and managerial activity. This is particularly important for the implementation of the directives of economic policy in areas where it is impossible to depend solely on the impact of economic mechanisms, but where success depends on the flexible and timely resolution of problems which have just arisen.

Findings from the current implementation of the Set of Measures indicate that despite a number of problems it is having a positive impact on the qualitative aspects of management, especially in those sectors which are accorded priority in our current economic policy. But despite these undoubtedly positive results we are expecting more from these improved managerial techniques. This is a matter of assuring greater worker participation in plan formation and implementation, in assuring their economic commitment to a continual increase in labor performance. The fact that on many occasions the applications of the regulations of the Set of Measures is a matter primarily for economic divisions and that the other components, which are responsible for production and quality control, are frequently left out, is a serious cause of the unsatisfactorily slow progress in intensifying enterprise and internal enterprise khozraschet. It is not even possible to deduce from the attitude of several sectors and VKh [economic production units] to the preparation of the 1983 plan that the principles of the Set are having a sufficiently active impact on economic decisionmaking and management in line with the public interest.

In the resolution of the Seventh Plenum of the CPCZ Central Committee of November 1982 the requirement is again very emphatically stated that the Set of Measures must be consistently applied and that there must be a substantial increase in the quality of direct management and decisionmaking, in the techniques and style of managerial and organizational work. Comrade Husak stated in his concluding comments at the plenum that "the entire managerial sphere, from the government to the ministries to the enterprises and factories, must intentionally, and with great commitment, assure the development, implementation and monitoring of the plan."

The importance of the subjective factor at all managerial positions, the quality of managers in their approach to decisionmaking is becoming the factor on which will most depend the successful mastery of the demanding economic strategy while fulfilling the conclusions of the 16th Party Congress in the upcoming years of the Seventh 5-Year Plan.

IMPROVED MANAGEMENT IN AGRICULTURE CRUCIAL

Prague NOVA MYSL in Czech No 1, Jan 83 pp 16-24

[Article by Frantisek Pitra, CPCZ Central Committee secretary: "Improving Management in the Agricultural-Foodstuff Complex"]

[Text] Throughout its existence, the CPCZ has devoted exceptional attention to agricultural issues. An inseparable component of its policy has been a Marxist-Leninist resolution of agrarian questions, the creation and strengthening of a worker-farmer alliance. The objective of this policy has been to free the farmer from capitalist exploitation and from the obsolescence of small-scale agricultural production. But favorable conditions for the thorough resolution of agrarian issues were created only after the liberation of our republic by the Soviet army.

The struggle for the implementation of land reform in conjunction with the solution of other pressing problems of the countryside formed the basic directions of party policy at the stage of the developing offensives against the power political positions of the bourgeoisie. In the political struggle for the implementation of the program objectives of the party, the unity of interests and the alliance between the working class and working farmers was strengthened. The great social significance of this revolutionary alliance was confirmed exactly 35 years ago in the memorable events of February. To the credit of the perceptive policy of the Communist Party, the working farmers supported the working class led by the CPCZ and contributed, in the "who with whom" struggle, to the opening of a new chapter in the history of our people.

The consistent implementation of Lenin's cooperative plan has played an essential role in our socialist construction. Events in Czechoslovakia have once again confirmed the international validity of the principle that the socialist restructuring of the village is one of the basic preconditions for the stable development of a socialist society.

In its activities, the party has always adhered to the principle that without a prosperous socialist agriculture neither the smooth, harmonious development of the national economy nor an increasing living standard for the people is possible. Thanks to the systematic concern of the Communist Party and great efforts on the part of workers in agriculture and with the active assistance of society, basic qualitative changes have occurred in this sector. In addition to the development of large-scale production techniques, there has

been a change from the ground up in the position of farmers in our society and of village life as a whole.

As a result of the purposeful agricultural policy of the party, our society has at its disposal today a mature socialist agriculture. It is within its power, in conjunction with other national economic sectors, to cover fully the growing demand for food of our population. The current intensive socialist agricultural mass production of our JZD [United agricultural cooperatives] and state farms is also capable of thwarting successfully the growing efforts of international imperialism to utilize economic pressure to weaken the economic and political stability of our socialist state. Today, when international reaction, fearful of losing its position, is making use of all economic, political and military means of pressure to arrest the progress of peoples toward their ultimate liberation and the efforts of the socialist states to further this ultimate objective of their efforts--the building of a communist society--and when food is becoming one of the strategic weapons in this struggle, we are more and more aware of the importance of the foregoing realities of our agricultural capabilities.

It is in these broader internal and international political connections that one must understand the strategic policy of increasing self-sufficiency in food production, as outlined by the 16th CPCZ Congress. The 16th Congress further specified this strategy for the conditions of the eighties. In the report on party activities at the 16th Congress, Comrade Gustav Husak again emphasized: "We attach top priority to the assurance of a high level of nutrition for our people, an increase in self-sufficiency in the production of food and of agricultural raw materials. In the upcoming years as well, the development of the agricultural-foodstuff complex will remain in the center of our attention, as this is a long-range strategic policy that has been outlined by the 14th and 15th Congresses. It will be continually more difficult and demanding of foreign currency resources to import agricultural products and foods. For this reason, we cannot assure a high level of food consumption through increased imports, but must do so with domestic production." (16th CPCZ Congress. Prague, SVOBODA, 1981 p 30)

The strength and maturity of our socialist agriculture and food industry is evident in the fact that food consumption, whether judged in terms of basic nutritional components or individual types of food, has reached a truly high level in our country. At practically all levels of the population, the makeup of our diet continues to approach recommended levels for rational nutrition.

We are proud of the results which our socialist agriculture and food industry are achieving in close cooperation with other national economic sectors. This does not mean, however, that we do not perceive certain problems and at the same time possibilities for the further improvement in the work performance of the agricultural-foodstuff complex. Even though the level of self-sufficiency which we have achieved in satisfying demand for food is relatively high (more than 90 percent of temperate zone products are produced domestically), we cannot be satisfied with a situation in which we import annually a certain amount of food and agricultural raw materials for whose production we have the preconditions and whose imports we are securing under continually more complicated conditions.

For this reason the Fourth CPCZ Plenum, which in October 1981 addressed the tasks of the food and agriculture sector following the 16th Congress, provides additional suggestions for reestablishing the pace of agricultural development so that it would more completely correspond to the long-range strategic policy of increasing self-sufficiency in food and agricultural raw materials.

Under existing conditions, agriculture has only one way that it will be able to adhere to the established strategy. This is through the further effective intensification of production based on an ever broader utilization of contemporary research and development findings and on the rational management of all available productive resources. The party Central Committee has created one of the important preconditions for this approach with its approval of the improved planned management system for agriculture.

Achieving a turnaround of agriculture in the direction of its more effective intensification, as emphasized by the Fourth CPCZ Plenum, requires above all a substantial increase in the sophistication of managerial work at all levels along with a corresponding strengthening of economic incentives and accountability at economic organizations for the full utilization of their local production conditions. It is precisely these areas that are expected to be improved by the Principles of an Improved Planned Management System for Agriculture, which in its significance goes beyond the bounds of the management of this sector and in its content marks a further substantial intensification of the Leninist principle of democratic centralism.

In increasing the sophistication of central management while at the same time creating the opportunity for more independent decisionmaking by economic organizations, we perceive a significant step toward a more targeted and more effective utilization of the production potential of our agriculture. At the same time, however, there is an important political factor which should influence the quality of economic thinking by labor collectives and strengthen their tie to socialist ownership. Previous findings and experiences have convinced us that the more closely linked a labor collective and its revenues are to the activities of "its own" enterprise, the more its labor activity and initiative increase. Simultaneously, its identification with the position of a socialist owner becomes deeper and more comprehensive. For this reason, the thorough implementation and application of the approved Principles of an Improved Planned Management System for Agriculture is a pressing task of not only a national economic, but also a political character. It must be understood, and its fulfillment approached in this light by all managerial teams and party organizations.

We now know the preliminary results for 1982, and we also have behind us the first experiences from the implementation of the approved Principles. It is therefore possible to judge the success that has been achieved in fulfilling the resolutions of the 16th Congress and the related Fourth CPCZ Central Committee Plenum.



Even though there was less than complete success in fulfilling plan objectives (in gross agricultural production it is expected that the plan will be 99 percent fulfilled, and in marketable production it is expected to be exceeded at a 102 percent rate), we regard this performance as positive with regard to the difficulty of the established tasks and the prevailing weather conditions. We are particularly proud of the way, in a relatively short time period, that agricultural enterprises were able to adapt the volume and structure of livestock production to the situation that had developed in the fodder base as a result of a poor grain harvest and significant limitations on grain imports. Even though the fodder balance was not completely in equilibrium, these enterprises were able to achieve the planned level of livestock production, especially of meat.

In plant production, whose growth is crucial for fulfilling the strategic policy for the further development of agriculture, plan objectives will not be met above all in the production of grain, oleaginous plants, and potatoes. Instead of the planned 14.5 percent increase in gross plant production in comparison with 1981 levels, we are expecting an increase of "only" 8.9 percent. This rate of growth will make it possible to achieve the highest level of plant production in the entire contemporary history of our agriculture. It has already passed by more than 2 percent the previously most successful years of 1978 and 1980. One may only hope that this is the first step in a gradual turnaround in the current development of the relationship between plant and livestock production, one that is essential to the achievement of greater self-sufficiency in food production.

We must, however, evaluate less positively the fulfillment of tasks by the agricultural-foodstuff complex in relation to foreign trade. In the event that planned export targets are not fulfilled, planned import levels will be exceeded. Even though it is possible to offer specific justification for a failure to fulfill planned foreign-trade targets (for instance because an attempt was made to satisfy increased demand on the domestic market for certain types of food by decreasing exports of them or increasing imports of them, or because grain harvests were lower due to weather conditions, etc.), we must be aware that this reality exerts an unfavorable influence on our foreign-trade balance and therefore does not correspond to our strategic objectives.

Likewise, in the economics of agriculture planned objectives in the evolution of costs in comparison to performance and planned profit levels will not be met. This represents a failure to fulfill one of the resolutions of the Fourth CPCZ Central Committee Plenum, namely that there should be an overall strengthening of the revenue situation of agricultural enterprises as a precondition for an increase in their economic viability.

The achieved results in production, and particularly in the economics of the organizations belonging to the agricultural-foodstuff complex indicate that we are only at the very beginnings of the requisite turnaround to the effective intensification of production. For this reason, individual managerial teams and party organizations must devote continual and systematic attention to the assurance of this pressing task.

Last year saw the beginning of the implementation of the principles of an improved planned management system for organizations of the agricultural-foodstuff complex. Initial experiences are fully confirming that the shift to the new principles of planning and management will not be easy, and that it will not be possible without the systematic concern and attentiveness of the pertinent managerial organs and party organizations.

We have succeeded in making more comprehensive the process of balancing the relationships of agriculture and the food industry with the other sectors of the national economy. Through cooperation between the ministries of agriculture and food and contracting sectors, some of the most pressing problems regarding deliveries of technology, and chemical and other resources to agriculture and the food industry have been at least partially resolved. Nevertheless, basic changes in the planning of production and deliveries within the organizations sharing in the feeding of the population, as decreed by the approved Principles, have not as yet been achieved. Methodological issues of planning for the agroindustrial complex remain as yet unresolved. Nor have organizational questions related to the above approach to planning been completely clarified. At the same time, work on the basic directions of economic and social development through 1995 require the optimization of the mutual links between organizations of the agroindustrial complex from the viewpoint of its further development in terms of target programs.

The complexity of the formation of the Seventh 5-Year Plan made it impossible to implement an additional approved principle--that of the role of the 5-year plan. This meant that it was also impossible to implement even the presumed approach and technique of counterplanning. This was also negatively influenced by the fact that as a result of a lower fodder base it was also necessary to change the 1982 plan and thereby also the current plans of agricultural enterprises and certain food sectors concerning the future development of their production. Nor did certain ongoing problems with the 1982 plan, which were finally resolved in the course of the year, contribute to the creation of optimal conditions for the development of counterplanning.

Regardless of all these objective factors exerting a negative influence on the development of activity and initiative by enterprise collectives in the formation of enterprise plans, it nevertheless remains a fact that much remains unclarified in the very principles of counterplanning as these apply to agriculture. Far from all managerial employees fully agree with them in private, and therefore do not give them full range or their full support in their managerial activities.

Our research and development base must also contribute to the resolution of the still open questions of plan formation for the agroindustrial complex and of counterplanning utilizing the initiative of enterprise collectives. It is necessary to resolve more rapidly the methodological problems connected with the shift from narrowly conceived sectorial planning to planning for the entire agricultural-foodstuff complex.

A fuller answer must be given to questions related to the position, role and mutual relationships between state elements of economic management and the

management teams of the khozraschet sphere in connection with the deepening of the Leninist principle of democratic centralism in management. Even though the approved Principles define the role and relationship between the management elements of both of these spheres, the thorough practical implementation of these guidelines requires elaboration to a degree of specificity so that they may become a direct starting point for managerial practice. The insufficient elaboration of these questions is also one of the crucial reasons for the lack of a unified approach and the ignoring of existing managerial practice when implementing the principles of a new planning technique.

Likewise awaiting resolution is an entire complex of questions related to new forms of relationships between economic organizations of the khozraschet sphere. It has already been emphasized in the Principles that an improved system of planning and management demands, besides a new form for supplier-consumer relations to apply to transactions between producers of agricultural raw materials and their consumers, also a definition of a new role for consuming organizations in influencing the interests of economic organizations for primary agricultural products. This is also connected with a qualitatively new role for supplier-consumer contracts. These assume an exceptional significance by directing agricultural production in accordance with public requirements as expressed in the national economic plan. However, at present the requirements for a new relationship between mutually dependent producers and for a new position for consuming organizations within these relationships have not been consistently implemented. Only sporadic improvement has been achieved in the relations between consuming organizations and their partners.

The foregoing is closely connected to the further improvement of the system of economic mechanisms, primarily purchase prices. We want these to exert an effective influence on the orientation of enterprises to the effective intensification of production and on their structural organization in accordance with the objectives of the national economic plan. At the same time, we want them to serve as an effective mechanism for the actual optimization of planned intentions. Among other things, this requires the further objectivization of their formation with a view to the social cost of the production of specific products. The responsible central organs must, therefore, devote systematic attention not only to the overall level of procurement prices, but also to their mutual relations so that they will better and better correspond to the relationship between social costs and the production of given products, and particularly so that they may be used to focus the interests of enterprises in socially desired directions.

The thorough implementation of the approved Principles likewise demands more rapid progress in the linking up of individual price groups, especially to achieve a mutual interconnection between the procurement prices for agricultural raw materials and the wholesale prices of individual food products. Only in this way can we develop a more effective influence for prices on desired product quality, achieve a more objective view of the social costliness of their products, and thereby increase the overall sophistication of our price-formation mechanisms.

To date the planned management systems of agriculture and the food industry have to a large extent developed independently of each other. So far, however, a thorough analysis has not been carried out of how essential it will be to merge both systems so that they act in a unified manner in pursuit of the similar objectives which they seek. It is, therefore, necessary to speed up research work whose objective is the achievement of internal unity and the integration of both systems so that we may create the preconditions for the implementation of a unified planned management system for both sectors.

The achievement of the desired objectives in improving the planned management system of the agricultural-foodstuff complex will not be possible without a deepening and strengthening of the khozraschet standing of the economic organizations of both sectors. We must, above all, sensitively consider what kind of position we will give to food enterprises within the framework of their professional grouping, so that both the field as a whole with its general directorate, as well as the individual enterprises, can fulfill the function which we expect of them. What has to date been a nonuniform internal arrangement of professions in both republics should be taken as an opportunity for evaluating the pluses and minuses of the concern and trust methods of arranging professions in this sensitive sector of the national economy. As a final step, then, it will be necessary to make decisions concerning their internal organization with a view to their specific mission. At the same time, it will clearly be necessary also to take account of the characteristics of specific fields, as these are conditioned not only by the particular raw material that is processed and the functionality of the output, but also the requirements as to the extent of their integration with primary agricultural production.

The deepening and strengthening of khozraschet principles for economic organizations of the agricultural-foodstuff complex also relates to a more thorough resolution of the influence of changing weather conditions on their production operations and on their economics. In addition to making the most of natural underutilized capacity, without which it is impossible to assure the harmonious and effective development of both sectors and the smooth supplying of the market with the desired amount, quality and assortment of specific goods, it is also essential to improve the economic system for compensating for the consequences of these meteorological influences on the economics of individual organizations. The system now in use, besides providing for an inadequate resolution of these effects, also currently contains significant elements of subjectivism. This weakens the effectiveness of the khozraschet position of individual organizations and limits the possibilities for its more effective utilization to increase the material accountability of enterprises for the results of their actions.

Improving the khozraschet standing of enterprises and the effectiveness of its utilization to achieve desired objectives is to a large extent dependent on the utilization of khozraschet principles in internal enterprise organizations and management. The examples of our foremost enterprises demonstrate that good performance may be achieved in instances when individual labor collectives are well aware of their objectives and have a direct economic



incentive for their fulfillment. For this reason, not only in our country, but also in other socialist countries which are attempting along with us to increase the efficiency of their economies, the search is continuing for and development proceeding on forms of production and compensation organization which make it possible to achieve the closest possible link between the interest of individual work collectives in the most rational utilization of the resources entrusted to them for the achievement of the best possible production performance. The organization of work collectives in the so-called brigade format, on the basis of introducing khozraschet principles of management at individual work collectives which are entrusted with the "administration" of distinct, relatively independent and relatively closed production sectors, is clearly a progressive form of internal enterprise production organization to which we too must devote close attention.

In the agricultural-foodstuff complex as well as throughout the national economy, the pressure is further increasing on resources of energy, materials, raw materials, labor, investment and foreign currency. The management system as a whole, its individual components and all managerial and political-organizational work must, therefore, take all the more account of the categorical national economic requirement for a high level of valuation of all available resources.

A year is too short a time, especially in such complex sectors as agriculture and the food industry, for a comprehensive evaluation of the efficiency of the measures which have been adopted, whether they be of a material or of a systemic character. As early as the discussions at the Fourth CPCZ Central Committee Plenum we emphasized that it would be an unforgivable error to think that these measures would exert an influence automatically. Their execution in the practical activities of managerial organs and of agricultural enterprises will be a complex process which it is necessary to manage systematically, to influence actively and to react in a timely manner to trends which would run counter to the public interest. The reality of the past year has fully confirmed this thesis. Despite a relatively short time period having elapsed, it is already possible to begin to analyze and to generalize on the basis of the experience that has been gained and to make certain conclusions.

Facts concerning 1982 performance make it possible to evaluate the attitude of most of the functionaries of our JZD and state farms to the resolutions of the Fourth CPCZ Central Committee Plenum, which reconciled the volume and structure of livestock production with the potential of our fodder base. Similarly, and not without difficulty, further conservation measures were successfully assured which, especially in the case of crude oil, necessitated a number of encroachments on organizations for the production of technical equipment. The mastery of these difficult tasks demonstrates that in the enterprise sphere there have arisen a number of excellent organizers of production who are capable of solving the problems and meeting the objectives of the current stage of development. At the same time it has been confirmed that our orientation to the freeing up of opportunity for these functionaries to engage in more independent decisionmaking concerning the directions and methods for utilizing local production and economic conditions in ways consistent with the principles of the improved planned management system for agriculture is not only correct, but above all is necessary.

A policy of full trust in the managerial cadres of our agricultural enterprises founded on the creation of ever broader opportunities for their creative initiative along with a strengthening of their personal responsibility for the section entrusted to them and with a critically rigorous evaluation of their activities forms the basis for party policy in this entire area.

We nevertheless do not wish to overlook the fact that we continue to have certain managerial employees at all levels who have become far too accustomed to the administrative technique of management. They have lost the ability to make independent decisions and to take personal initiative. They rely too heavily on decisions coming "from above" and they hide their own responsibility for production and its development behind these decisions. The incompetence or the lack of desire by these managerial employees can in no case be a cause for us to slack off in our efforts at implementing improved techniques of management and planning. Should it be shown that any of them are truly incompetent or not willing to adapt their managerial style to the new conditions and to fulfill the higher requirements that these conditions place on the sophistication of their managerial activities, then we must proceed promptly and replace them. The ever more complex conditions of our work, the demanding period in which we live, along with the objectives which we are trying to assure all demand the improved and more consistent carrying out of our personnel policies. It is necessary to leave enough time to seek out and to prepare talented workers for managerial functions with an eye on the requirements placed on managerial employees by the improved system of planning and management.

We must then request of managerial employees at all levels of management that they carry out the practical implementation of the approved Principles with greater creative enthusiasm and commitment. This is related to the necessity for creating in the enterprise sphere demanding, but also feasible and, as much as possible, stable conditions for its further successful development, along with solving certain specific problems. A critically rigorous confrontation of the directions and objectives of the improved management system for agriculture with current practice at all levels of management, beginning at the ministries and ending at agricultural enterprises, followed by the deduction of appropriate conclusions is the basic condition for further, more significant progress in the fulfillment of the conclusions of the Fourth CPCZ Central Committee Plenum. Only literally daily concern with the improved management of agriculture at all levels without distinction will make it possible to create continually improving preconditions for the maximal evaluation of the immense work and effort which society under the leadership of the CPCZ has expended on the building of modern socialist agricultural production. Only in this way we fully utilize the unmeasurable riches which we have in the diligence, knowledge and experience of the employees of our agricultural and food enterprises. Only with these preconditions will our agriculture and food industry successfully carry out the strategic policy of the 16th CPCZ Congress.

GDR PRIVATE SECTOR ANALYZED IN WEST GERMAN REPORT

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## Summary

Although 20 years have passed since the GDR announced the victory of "socialist production conditions," some means of production are still in private hands. While private economic activities in the Soviet economy, including the illegal transactions conducted in the "second economy," have been the subject of a series of Western studies in the 1970s, there is a paucity of research about most private activities in the GDR and other East Bloc countries except private handicraft industries.

Because of the absence of available data on illegal activities, this paper concentrates on the legal private economy in the GDR. It represents an attempt to document the historical development, the current scope and the structure of the remaining private economy in the GDR.

The elimination of the private economy as a central element of the Soviet communist economic system was carried out in the GDR in several phases. The process began in the Ulbricht era even before the establishment of the GDR with the confiscation of all the "commanding heights of the economy," as they were defined in the Leninist sense. The actual Sovietization phase starting in 1949 was, on the one hand, characterized by so-called "cold" socialization, that is, by means of economic sanctions and progressive taxation and, on the other hand, by the forced collectivization of agriculture, which was completed in 1960. Also the forced collectivization of handicraft industries, which was planned, had to be broken off out of concern for the availability of needed services.

Up to now, the Honecker era has been characterized by two different tendencies in its policies regarding private ownership of the means of production. At first, with lightning speed action in the first half of 1972, almost all private and half-nationalized industrial and construction firms were nationalized. Together they had accounted for 15 percent of the net product of the economy. After that action, the private economy was concentrated primarily in the handicraft industries, retail trade and restaurants. Until 1975 it was generally included in the planning and management of nationalization. Licenses were no longer issued except in extremely tight situations (for example, to bakers and barbers), and few apprentices were assigned. Handicraft industries were restructured with the emphasis on repairs and services and further collectivized. The shrinking of the private sector, however, led to serious gaps in supplies and, by the end of the year, caused a sudden course correction, which led to a phase of "active policies relating to trade and industry" based on a decision of the Politbureau and the Council of Ministers of 12 February 1976. Measures such as the issuance of business licenses, allocation of apprentices, grants of startup assistance and an easing of the tax burden went hand in hand with a "campaign of moral support," the high point of which was the inclusion in the new SED party program for 1976 of a statement to the effect that private handicraft industries were being supported. This statement openly contradicted the theses of the Eighth Party Congress in 1971 and therefore required a long-winded ideological justification.

The result of this policy of support was a significant slowing down and in some cases a halt in the shrinkage of the private economy which still existed. In 1980 its share in the net product of the economy, including commission dealers, was 3.6 percent. The 180,000 self-employed persons constitute 2.2 percent of all employed persons in the economy. Of these, the lion's share, 62 percent, are the 112,000 private handicraftsmen who are responsible for most of the output in the so-called tertiary sphere such as repairs and services in the GDR. In the course of these promotional activities certain rare occupations which are threatened with extinction have recently been given special support. Another 21 percent of the self-employed are private dealers, restaurateurs and commission dealers. Of the remaining 17 percent, or 29,800 self-employed persons, 13,000 are business and trades people, 6,200 are employed in agriculture and forestry and 10,700 are freelances. These three groups are subject to different tax rates. Thus, for example, the free lances who belong to the so-called freely creating intelligentsia are subject to the lowest tax bracket, or a maximum of 30 percent. Almost all the self-employed persons have, by means of national taxes and limitations, been made to conform with the "socialist economy" insofar as their freedom of enterprise is concerned. Since 1981 a serious campaign for still greater integration of the handicraft industries, especially of those groups which supply essentials, into the people's economy has been under way within the framework of the so-called socialist cooperation. At present most of the self-employed are now well past retirement age. These people, for whom even greatly restricted private economic activity was still worth striving for, are rapidly dying out.

#### I. The Private or "Second" Economy: An Introduction

After World War II, the Soviet economic system, based on the principles of Marxism-Leninism, was imposed on the Soviet-occupied zone of Germany and on the East European states. Based on the political dominance of the Communist Party, this system consists of (1) the removal of the means of production from private hands and (2) centralized state planning and management of all economic processes.

In all East European states and in the former Soviet zone of occupation, the removal of the means of production from private hands, that is, nationalization of the means of production, was accomplished to the greatest possible extent by means of confiscation and the massive pressure of taxation. Today the only exceptions to widespread nationalization are agriculture in Poland and handicraft industries, especially in the GDR.

Until 1972 there even existed in the GDR some industrial and construction firms which were still private or half nationalized. Even today the GDR and the other European CEMA [Agriculture Central Marketing Association] countries have a legalized private sector especially in the area of handicraft industry, services, retail trade and the restaurant business.

Despite complete socialization and ideological condemnation of private ownership of the means of production even by small producers of goods, private economic activities were and still are tolerated in the Soviet Union, principally in agriculture. Here production by legally cultivated "individual



parallel farm holdings" of the Kolchosniki and the Sovchosniki have played and are still playing a not inconsiderable role in the provision of supplies of meat, milk and eggs.<sup>1</sup> Despite continuing ideological strictures against the private ownership of the means of production, the Soviet constitution of 1977 enhanced the status of the productive private economic activities tolerated by the state over their former place in the constitution of 1936.

Article 17 of the 1977 constitution reads: "Individual work in the area of the handicraft industries, agriculture and services for the people as well as other activities based exclusively on work by private citizens and the members of their families are permitted in the USSR in accordance with the law. The state regulates individual work by assuring its benefit to society."<sup>2</sup> In Article 9 of the old constitution only "the small economic activity of individual peasants and small tradesmen which depends on personal work and excludes any exploitation of outside labor" was mentioned.<sup>3</sup>

The new language contained an important shift in emphasis.<sup>4</sup> According to the old language, "individual activity" was treated "as a carryover to be tolerated" during a period of transition. The new language reflects the more recent view that even the most developed socialist society cannot give up entirely a minimum measure of activity by small tradesmen.<sup>5</sup> In adopting this view so recently the USSR clearly brought up the rear among the European socialist countries. All European socialist countries including Yugoslavia have supported certain private economic activities, primarily in the areas of services, repairs and the restaurant business, at least since 1963. The support varies in the individual countries, but it is very limited and has been in part withdrawn again.<sup>6</sup>

Yugoslavia implemented measures to support what was left of the private sector, starting in 1963-1964.

After 1964 Poland lightened the tax burden on those small private businesses that still remained. The 5-year plan ending in 1970 provided for the first time for an increase in private handicraft enterprises.

In 1965, in Bulgaria licenses to engage in handicraft industry were issued to private persons for the first time. The CSR has applied the same policy since 1965.

In Hungary licenses have been granted in increasing numbers since 1966, when private artisans still accounted for 25 percent of all handicraft production.

In Romania it has been possible once again to open private handicraft enterprises since 1968. The purpose of this superficial overview is not to provide concrete data on individual countries but to show that private economic activity has been legalized or even promoted. It must also be pointed out that these policies have often been accompanied by restrictive measures, as in the CSR in 1968, in Bulgaria in 1972 or in Poland in 1970-1971.

Alongside the legalized economy there exists in the East European economies a finely spun network of private economic activity ranging from those still tolerated but no longer anchored in the law to private economic activity such

as dealing with "diverted goods" from the state economy, which are plainly illegal.

For all these forms of activity which have developed outside the "socialist economy," that is, industry and commerce owned by the state or by the people and the "cooperative economy," the designations "second economy," "counter-economy," "unofficial economy," "shadow economy" and "parallel market" have come into use in recent times.<sup>7</sup>

The border between "legal" and "illegal" forms of private economic activity is generally blurred. The American economist Gregory Grossman describes the second economy as a "very significant side to Soviet economic reality, where production and exchange often take place for direct private gain and just as often violate state law in some nontrivial respect."<sup>8</sup> The second economy thus defined, which occurs when production or exchange meet one of two criteria: (1) realization of direct private profit or (b) knowing violation of applicable law, includes a considerable portion of legal private activity which is possible in the Soviet Union.<sup>9</sup> The inclusion of private economic activity in the definition of the second economy thus sets the formally sanctioned private economy apart from the "first" or socialist economy and puts it in the same category with illegal private economic activity as an ideologically alien body. Israel political economists Gur Ofer and Aaron Vinokur use this broad concept of the second economy.<sup>10</sup> In his typology of the "colored markets" in the USSR, A. Katsenelinboigen has attempted to draw a neat separation among the legal, semilegal and illegal economies.<sup>11</sup>

The second economy in the Soviet Union, especially in agriculture, has been the subject of a series of Western studies during the past decade.<sup>12</sup>

By contrast, the private or second economies in the other East European countries have received relatively little attention in the West. Considerable enlightenment on private economic activity in the USSR has come from Jewish immigrants from the Soviet Union to Israel in the 1970s as well as from analyses of the testimony of Jewish immigrant scientists.<sup>13</sup>

Because of the scarcity of source material and, up to now, the total lack of analyses of the second, that is, the entire nonsocialist, economy in the GDR, this paper is limited to a discussion of the legalized sector of the private economy in the GDR. Although this sector played a not inconsiderable role in the GDR economy, especially up to the last wave of nationalization in 1972, it has not been the subject of research in the last 15 years either in the West or in the East.

Only the development of the private handicraft industry--certainly the largest area of private economic activity--has been analyzed continuously from the beginning of the 1960s by the Research Institute for All-German Economic and Social Questions, the results have been published since 1976.<sup>14</sup> Since the 1960s the Chamber of Handicraft Industries in West Berlin has made possible the publication of the results of these inquiries in the appendix to its annual report of its activities.<sup>15</sup>

To the knowledge of this author, this paper is the first attempt to document the structure and extent of existing legal private economic activities in the GDR, outside the handicraft industries.<sup>16</sup>

Swedish political economist Anders Aslund is currently preparing at Oxford a dissertation comparing the private economies of the GDR and Poland. On the basis of information so far available, this study promises to fill an important gap in research.<sup>17</sup>

## II. The Ulbricht Era

As we know, the destruction of the private economy and the creation of socialist conditions for production were carried to completion in several stages. The first stage occurred in the period before the GDR was even established.

### 1. The Preparatory Phase, 1945-1949<sup>18</sup>

Preparations for the Sovietization, that is, the implantation of the Soviet political and economic system on Central Germany, or the "antifascist democratic period" in GDR terminology, took place immediately after the collapse of the Third Reich in 1945. In this phase all the "commanding heights of the economy" were expropriated and transformed into so-called people's property, which, also according to the GDR definition, is identical with state property.<sup>19</sup> This sector included heavy industry, banking and insurance, foreign trade and half of the wholesale trade. In agriculture two-thirds of all property over 100 hectares were redistributed as new private peasant holdings and one-third as estates belonging to the people. This action, however, merely constituted a transitional phase towards socialization. According to Thalheim, the following features, also characteristic of the Soviet Union, marked this preparatory phase<sup>20</sup>: (1) the expropriations were without indemnity; (2) with the exception of mineral resources and mining companies, which were confiscated on the basis of state laws, there was no legal basis for the other expropriations; and (3) the expropriations occurred in almost all spheres of the economy.

### 2. The Sovietization Phase

The second phase, which started with the establishment of the GDR in 1949 and lasted until 1960, was the period of actual Sovietization, according to Thalheim. The remaining private economy was totally subordinated under central planning and was exposed to "cold socialization" through economic sanctions and a steep progressive tax, the so-called "capitalists' tax." The only exceptions to these measures were in agriculture and the handicraft industries. The latter were limited in 1950 to firms with a maximum of 10 employees under the "Law for the Promotion of the Handicraft Industries."<sup>21</sup> Other small industries with no more than 10 employees were combined with the handicraft industries and thereby avoided the "capitalists' tax."

The next stage of the Sovietization phase took place at the Second SED Party Conference in July 1952, erroneously called the "socialization party congress." The establishment of agricultural production cooperatives (LPG) on the Soviet model of the kolkhoz and of production cooperatives of handicraft industries

(PGH) was propagated by Ulbricht at this meeting. The legal basis for establishing these "socialist" cooperatives was contained in the model statute for the LPG's which was adopted before the end of 1952.<sup>22</sup> The legal basis for the establishment of the PGHs did not appear until 1955.<sup>23</sup>

Stalin's death caused a short interruption in the new course, which brought some relief for the private economy.<sup>24</sup>

The Fifth Party Congress in July 1958 marked the next turning point. The stage of "planned construction of the foundations for socialism" announced at the Second Party Conference in 1952 was declared at an end. Henceforth the stage to "complete the construction of socialism" and thereby "defeat the remnants of capitalism" was inaugurated. The policy of state participation in industry propagated at the Third Party Conference in 1955 was supposed to limit further the private economy. This policy represented a transitional step toward state ownership. The firms with state participation (BSB), the "half-nationalized firms," are, in legal terms, limited partnerships [KG]. The former private owner is a general partner, with the state in the form of a state enterprise as a limited partner.<sup>25</sup>

Walter Ulbricht characterized this form of the BSB, which was taken from Red China at the Fifth Party Congress:

"Through state participation in private industrial firms exploitation has been limited, a new relationship of the worker towards the firm is being developed and the old, limiting capitalist conditions of production are gradually being overcome."<sup>26</sup> In a manner analagous to the BSB in industry and construction, a commission basis was propagated for commerce.

Outlining the future of private handicraft industry and small industry, Ulbricht noted that "the contradiction between the conditions of production and production forces has become ripe for solution."<sup>27</sup> The Sovietization phase reached its conclusion with the end of forced collectivization of agriculture in the early summer of 1960.<sup>28</sup>

The collectivization campaign for the handicraft industries, which had been running concurrently, was broken off in May 1960 out of concern for the availability of essential supplies. The blame was laid on the local organs--as it was also on other occasions when goals of the SED were not achieved. Ulbricht criticized these local organs openly on 28 May and announced the punishment of an employee of the National Planning Commission "who had on his own" sought "to accelerate the formation of cooperatives."<sup>29</sup>

As chairman of the Liberal Democratic Party (LPDP), Manfred Gerlach, described the break in collectivization, "if we were now to accelerate the tempo of socialist transformation of small business, it could lead to disadvantages for the people."<sup>30</sup> As a result of collectivization the number of self-employed persons declined from 19 percent in 1955 to 5.3 percent in 1960. Those employed in private industry now numbered only 14 percent of the total workforce, compared to 40 percent in 1955.

### 3. The Phase of Silent Transformation

In the decade after 1960, the further transformation and incorporation of the remaining private owners of the means of production was pursued indirectly, mainly by means of tax policy and the propagation of so-called socialist co-operation. In industry the half-nationalized sector increased at the expense of the private sector. This process was intensified on all private owners, including those in the handicrafts,<sup>31</sup> after 1969 by renewed tightening of the tax screw and very strict state control of the employment of workers. On the other hand, in this late phase of the Ulbricht era, a certain tolerance for private economic activity can be noted in the phrase "socialist human community." As the representative textbook of this period, "Political Economy of Socialism and Its Application in the GDR,"<sup>32</sup> puts it, "Today's power relationships and the strength of socialism therefore make it objectively possible to build the socialist society with these [private] strata and not against them."

### III. Policy in the Honecker Era

Up to now, two opposite tendencies have characterized the policy of the Honecker era toward private owners of the means of production.

#### 1. The Nationalization Action of 1972<sup>33</sup>

The first year of the Honecker era witnessed a lightning action, which started in February 1972 and was completed by May. In its course almost all private and half-nationalized industrial and construction firms were nationalized. Nearly 10,000 firms with nearly 480,000 employees were involved. Moreover, some 1,700 socialist production cooperatives in the handicraft industries with 100,000 employees were put under the so-called higher socialist form of ownership, the state enterprise.

At the end of 1971 the BSBs still made up over 9 percent of the net product of the economy. Industry and construction made up over 10 percent. Private firms at the end of 1971 were still contributing a good 5 percent of the net product. Their economic significance varied greatly according to the individual sector. In primary products and capital goods industries the private firms and the BSBs played virtually no role whatsoever. Their main field of activity was in the textile industry with over 25 percent of the net product and in light industry with over 28 percent. In these areas they employed 32 percent and 34 percent respectively. In light industry their main field of activity was textile manufacturing. In 1967--the last year for which figures are available--textiles accounted for 43 percent of total output, of which private firms alone made up 10 percent. In the leather, shoe and smoking products industries the total private output was some 30 percent, including 47 percent in the smoking products industries alone.<sup>34</sup> Fifty-seven percent of the half-nationalized firms employed 25 to 100 people and 72 percent of the private firms 10 to 25 while 24 BSBs had 500 to 1,000 employees. In 1971 one BSB had the highest industrial gross production of any type of firm, at 113.5 million marks and 263 employees. Among the private firms one had the highest gross production, with 14.7 million marks and 873 employees.



At the end of 1971, there were 1,295 state enterprises and almost as many half-nationalized private firms in the construction industry. The main activity of the latter lay in construction repairs on dwellings, an activity which contributed almost 40 percent of the total work on repairs. BSBs and private firms provided 14 percent of all construction for industry and agriculture.

The nationalization action of 1972 differed from past nationalization measures to a considerable degree. At the beginning it presented a confused picture.

The visible start was furnished by the 11th Party Congress of the LDPD of 16-19 February 1972. The chairman of the LDPD, Manfred Gerlach, announced in his speech on 16 February,<sup>35</sup> that partners and owners of private firms wanted to sell their shares to the state in order further to develop socialist conditions of production. Manfred Gerlach emphasized that the LDPD was encouraging socialist state awareness by the partners in accordance with the Eighth Party Congress of the SED in 1971.

Gerlach announced accelerated amalgamation of the handicraft industries into PGHs and mentioned the need for reorganizing the PGHs and private firms for the sake of repairs and services. He stated that the prospects of certain PGHs engaged in industrial production would be dealt with separately.

It was already clear from the discussion that Gerlach's statements were not aimed at some long-term intensified socialization program for the private and half-nationalized remnants in the GDR economy. On the contrary, the action was to start right at the party congress. Some partners stated that they would sell their shares, and two PGH chairmen announced at the congress the transformation of their PGHs into state enterprises.

On 15 March 1972 the central committee of the LDPD reported to Erich Honecker on the proceedings of the 11th Party Congress. The SED responded officially that it "especially appreciates the intention of the LDPD to promote the transformation of firms with state participation and private firms into state enterprises by means of differentiated ideological work with its members and those who stand close to it."<sup>36</sup> This statement by Honecker strengthened the impression that a certain initiative had been forthcoming from the "bourgeois" parties in the GDR--naturally after discussion with the SED. Details on the nature and extent of the action had to be taken almost entirely from the "bourgeois" press in the GDR.

At the 10th Party Congress of the East CDU on 19 April 1972 Albert Norden stated the official SED position in a way that would give the impression that the SED was only a spectator at these events.

He welcomed the steps of a number of partners to sell their shares and noted "With interest that members of your party are in favor of the transformation of PGHs engaged in industrial production into state industrial enterprises."<sup>37</sup> This statement struck an innocent tone but only 1 week later, at the Fifth Conference of the Grueneberg SED,<sup>38</sup> a report on the execution of the resolutions of the Eighth Party Congress of the SED on domestic political matters,



announced that the nationalization action was proceeding toward a conclusion; 94 percent of the BSBs, 73 percent of the private industrial firms and 74 percent of the PGHs engaged in industrial production had already stated their readiness for transformation by 25 April. Moreover, it was learned at that point that the measures had been adopted at the Fourth Plenum of the central committee of the SED in December 1971 as a task "for the further development of socialist conditions of production and for the elimination of some signs of recapitalization."<sup>39</sup>

As a result of these Grueneberg statements certain hints by Honecker at the Fourth Plenum took on special weight. In his conclusion Honecker said at that time, "Days filled with work lie behind us. We had decisions to make, which are of great significance for the further development of socialist society in the GDR."<sup>40</sup> The foundations for the action were, as was also learned at Grueneberg, a decision of the Politbureau and the Council of Ministers of 8-9 February 1972.<sup>41</sup>

As a result of the action mentioned above, the share of the private economy in the net industrial product (see Table 1) declined from 5.4 percent at the end of 1971 to 3.9 percent at the end of 1972. In the construction business the share at the end of 1972 came to only 8.4 percent as compared to 19.1 percent at the end of 1971.

The share of the half-nationalized firms, which amounted to 11.6 percent in industry and 10.3 percent in construction before the action, disappeared almost entirely.

The share of professionals in the private sector sank from 8.2 percent to 6.8 percent and that of the half-nationalized firms from 6.2 to 0.8 percent; the latter consisted almost entirely of commission dealers and restaurateurs.

## 2. The Course Correction of 1976

After the nationalization action of 1972 the political goals of the SED with regard to the private economy were concentrated on the remaining handicraft and retail sectors including the restaurant business. Because there have already been many detailed reports on SED policies since 1972 and especially on the promotional measures since 1976, it will suffice here only to summarize a few important aspects.<sup>42</sup>

On the basis of the 1972 "Decree on the Promotion of Handicraft Industries Performing Services and Repairs and the Regulation of Private Tradesmen,"<sup>43</sup> a massive restructuring campaign was introduced. Its purpose was to disconnect the handicraft industries from production and, as stated in the decree, to return the handicrafts to operations such as repairs and services. Business licenses were issued only to clear up serious bottlenecks, as, for example, to bakers and barbers. This restructuring campaign was accompanied by psychological and also actual pressures similar to those used during the period of the failed forced collectivization. Thus the owners of private enterprises were personally defamed if they resisted joining production cooperatives.<sup>44</sup>

Section 17 of the 1972 decree made possible wideranging inclusion in state planning and management.

As a result of these measures and increasing obsolescence a further shrinking process in the contribution of the private economy to the net product occurred up to 1975. (see Annex 1) Thus the share of private and commission business declined from 9.9 percent to 7 percent. Production in private handicraft industries, which could be increased up to 1971 despite a steady shrinking in the number of firms, thereafter declined from year to year.

The shrinking process, which could not be halted by "socialist" enterprises in the sectors involved, as, for example, the restaurant business or individual handicraft producers, conflicted with the main task propagated at the Eighth Party Congress in 1971, which was "the further raising of the material and cultural standard of living of the people." The course correction which occurred because of this development at the end of 1975 came just as suddenly as the termination of collectivization of handicraft industries in the early summer of 1960. The change was embodied in the resolution of the Politbureau dated 12 February 1976 which has not been published to this day: "For the Promotion of Private Individual Businesses, Restaurants and Handicraft Enterprises for Repairs, Services and the Production of Daily Necessities in the Interest of the Further Improvement of the Standard of Living of the People." This resolution introduced a deliberate policy of support for private trade for the first time in the history of the GDR. In many cases this resolution of private economic activity. Its main features are, inter alia, the granting of business licenses, provision of trainees for owners of businesses, the assignment of apprentices and the granting of financial start-up assistance.

For private handicraft tradesmen with one employee, 50 percent of whose business was repairs, services and the production of individual necessities, the comprehensive tax, which had been abolished in 1958, was reintroduced.<sup>45</sup>

Private retailers and restaurateurs did not have to pay any more business taxes after July 1976.<sup>46</sup> If they had more than three employees they were now also able to conclude contracts for commission business such as had been possible only in exceptional cases after 1971.<sup>47</sup> In exceptional cases the bond of 33 and 1/3 percent of the value of the goods could be omitted either in whole or in part.<sup>48</sup> Hand in hand with the economic measures, attempts were made, by means of increased and favorable publicity, to improve the climate created by the negative policies of mistrust and resignation and, above all, to overcome the lack of readiness on the part of the youth to learn handicraft trades. Once again the role of the private handicraft tradesmen as true partners of the working class, an alliance that went all the way back to the Revolution of 1848, was praised. As happened after the interruption of forced collectivization in 1960, the local organs were severely rebuked. NEUES DEUTSCHLAND warned that "narrow-minded, formal, bureaucratic behavior or even sectarianism towards the handicraft industries is alien to our party and will not be tolerated by it."<sup>49</sup> The deliberate denial of apprentices for many years was justified as necessary: "The master craftsmen who say, 'You didn't give us any apprentices before, now we don't want any apprentices,' in their unjustified sulkiness overlook the fact that primary economic needs determine the supply of trainees."<sup>50</sup> The highpoint of

the "moral integrity" of private handicraft industry was contained in the manifestation approved for the program at the Ninth Party Congress of 1976: "The private handicraft industry is being supported according to plan and included in the solution of the problem of meeting the need for essential supplies." (Emphasis added.)

Another part of the program stated: "Socialist society offers the handicraft industries and tradesmen favorable opportunities to use their strengths and abilities in the interest of society, to cooperate actively in the building of the new society and to receive appropriate compensation for their work. An important contribution towards the assurance and expansion of services for the people is especially expected from the handicraftsmen and tradesmen."

### 3. Ideological Aspects of the Promotion Policy

The promotion policy and its manifestation in the party program brought forth long-winded ideological justifications. The reason was that it stood in open contradiction to the thesis which prevailed from the time of the Eighth Party Congress in 1971, that a tendency existed, in the stage of the "establishment of a developed socialist society," to vanquish all nonsocialist conditions of production.<sup>51</sup> Writers of "letters to the editors," for example, asked whether the promotion of private handicraft industry and trade was compatible with transition to communism.<sup>52</sup> The editors answered with an unequivocal yes. Chairman Gerlach of the LDPD announced in this connection that "the tasks of the private handicraftsmen and tradesmen extend far into communism."<sup>53</sup>

The "chief ideologist" of the "bourgeois" parties was now given the task of providing further theoretical foundations for these measures.<sup>54</sup> Accordingly, he specifically emphasized that master handicraftsmen and tradesmen to whom business licenses were granted "do not thereby revert to capitalism."

Erich Honecker's position on the course correction in the ownership policies of the SED at the fifth meeting of the central committee of the SED in March 1977 certainly sounded rather awkward but was nevertheless clear enough: "In connection with questions of essential supplies the Politbureau has adopted measures for the promotion of the handicraft industries. It illustrates the need to reverse the tendency toward decline in handicraft enterprises and the number of those employed in them. The requisite central resolutions have been formulated. Now it is a question of resolutely carrying out this long-term policy in every district, in every kries and in every municipality. That also applies to small tradesmen...."<sup>55</sup>

Alfred Norden then formulated the official party version of events in the guidance material for agitators and propagandists: "As we know, there was at the beginning of the 1970s a stagnation in handicraft industry production and the number of private handicraft enterprises also declined, not least because of obsolescence. Serious shortages occurred in some sectors of essential supplies.

"Through speedy and decisive action by the party and the government it was possible to introduce a positive shift. Our party has repeatedly emphasized

that we will not tolerate reservations and equivocation in attitudes toward handicraft industries. Our policy of alliance in principle is not of a tactical nature and applies not only today but also for the time following 1980."<sup>66</sup>

In contrast to this statement, the first comprehensive analysis of ownership policy of the 1970s--especially noteworthy because of its objectivity--noted: "In the course of the 1970s the recognition grew that alongside the socialist form of handicraft industries and PGHs the activity of private handicraftsmen and tradesmen continues to be necessary and possible for the provision of essential supplies for the people.... Increasing clarity on these questions was closely tied to recognition of the long-term nature of the formation of developed socialist society."<sup>67</sup>

This interpretation by Janine Haschker was more realistic than the claims of continuity in the policy of alliance toward the private handicraft industry. Even the great resignation, which was caused by the nationalization action of 1972, and the associated policy for handicraft industries and trade were not denied at the beginning of the analysis mentioned: "Not a few handicraftsmen and tradesmen feared that they would lose their businesses sooner or later."<sup>68</sup>

The author cites relevant sources from the archives of the National Council on the mood of the handicraftsmen: "Now the partners and entrepreneurs wondered, 'When will our turn come?' Private handicraft industry and trade will cease to exist in any case by 1975."<sup>69</sup>

At the end of her otherwise objective analysis the author contradicted herself by claiming that "contrary to all the slander from the bourgeois ideologists, the confidence of the handicraftsmen and tradesmen in the policies of the working class and its party was strengthened."<sup>69</sup>

While Haschker named the local organs as the scapegoat for the developments of 1972-1975, she also addressed the SED directly. "In order to implement the alliance policy of the SED toward handicraftsmen and tradesmen, some confusion had to be cleared up within the party of the working class and among the local organs of the state. This confusion stemmed largely from sectarian views about the status of handicraftsmen and tradesmen and a developed socialist society.... Many doubts would not have arisen if the handicraftsmen and tradesmen had been dealt with more objectively and more sensitively. The exercise of political-ideological influence on handicraftsmen and tradesmen and cooperation with them was often neglected."<sup>70</sup> Haschker saw the causes for such phenomena in insufficient knowledge of the different role played by "small producers" under capitalism and under socialism.<sup>72</sup> Because they are suppressed and harried by capitalist producers under capitalism, they are thereby forced to ally themselves with the working class. After capitalism has been abolished, small producers such as handicraftsmen and tradesmen are not eliminated but their function and character are radically changed.<sup>73</sup>

Haschker did not discuss the role of the small producers under communism, whose fate would, of course, contradict the above statements. Exercising appropriate care, she dealt with the manifestation in the SED party program of 1976, which was mentioned at the beginning, without quoting it verbatim.

#### IV. The Legal Status of the Private Economy Since 1972

Despite the continued existence of the legal private economy even after 1972, article 9, paragraph 1, of the amended GDR constitution of 1974 remained unchanged from the constitution of 1968. It maintained that "the economy of the German Democratic Republic rests on the socialist ownership of the means of production." As indicated above, that statement is still not entirely valid even 20 years after the declaration of the victory of socialist conditions of production.<sup>64</sup>

Article 14 of the 1972 constitution illustrates the changes wrought by the nationalization action of 1972, whereby the private economy consists mostly of retail trade and handicraft industries. Article 14 of the 1968 constitution read: "(1) The utilization and management of private economic enterprises and establishments for profit-making purposes must satisfy social needs and serve to raise the welfare of the people and increase social wealth. (2) The state supports close cooperation between socialist and private economic enterprises and establishments. In accordance with the needs of society, private firms can acquire state participation on request. (3) Private economic associations for the establishment of economic power are prohibited."

Article 14 of the 1972 constitution now reads: "(1) Private economic associations for the establishment of economic power are not allowed. (2) Small handicraft and trade enterprises which are based predominantly on personal work are working on a legal basis. Entrusted with their responsibility for the socialist society, they are supported by the state." With this amendment the GDR constitution now takes private ownership of the means of production into account only in a negative way, namely through the prohibition of the property mentioned in Article 12 such as mineral resources, mines and similar kinds of property.<sup>65</sup>

Henceforth this prohibition is extended generally to industrial firms as well, in contrast to the constitution of 1968, which referred to "large industrial firms." The constitution of 1974 contains no more guarantee of the private ownership of the means of production than did the 1968 constitution. The private owner of the means of production enjoys only the same protection as the owner of personal property on the basis of the provisions of the civil code.<sup>66</sup> Article 16 of the new constitution, which uses the same text as the 1968 one, provides very limited protection in cases of expropriation: "Expropriations are authorized only for purposes of the common good on a legal basis and with appropriate indemnification. They may only take place if the sought-after purposes of the common good cannot otherwise be achieved." In the nationalization action of 1972 this constitutional principle was taken into account to the extent that the entire action was declared "voluntary," that is, private owners and partners "offered" their firms or their shares to the state.<sup>67</sup> The transformation took place in a normal way through purchase contract and deed of conveyance. There were, however, tax obligations offsetting the compensation. The money paid by the state was placed in a blocked account in most cases. The former partners and private owners were usually installed as managers or in other responsible functions.<sup>68</sup> After the nationalization of 1972 the legal basis for the minimal number of private tradesmen who were



still in business outside the handicraft industry was the abovementioned decree "On the Promotion of the Handicraft Industries for Services and Repairs and the Regulation of Private Trades" of 1972.<sup>70</sup> It replaced the 1956 decree on the "Regulation of Tradesmen" in the private economy.<sup>71</sup> Even according to this old decree, no free trade existed. State permission was and is mandatory.

After 1972, the state has demanded the following of private firms: total integration into the state contract system, state assignment of workers, integration into state investment planning, integration into product groups and today especially into state-managed groups supplying essentials, adaptation to the labor law requirements of the state enterprise system and permanent state control of finances. These strictures mean a greater functional integration into the state enterprise system since 1972. The main difference today is the far greater tax burden.<sup>72</sup> Because of the prohibition against the formation of private economic associations under Article 14, paragraph 1, there are no specialty or regional organizations in the private economy. Since their founding in 1953, the district chambers of handicraft industry have been instruments of the state economic administration.<sup>73</sup> They guide the role played by the small enterprises, those with not more than 10 employees, as well as the handicraft industries and--in contrast to the Federal Republic--also the tradesmen. The district chambers of industry and commerce, which have been dissolved and reauthorized many times in the past, are also auxiliary agents of the state organs and, since the nationalization action of 1972 in industry and construction, are limited in their competence almost exclusively to private retailers and commission dealers.

#### V. The Structure of the Private Economy in 1980

Because of the policy of support, the private sector has hardly shrunk since 1975. In some areas expansion was noted in 1979.

Thus its share of the net product was 3 percent in 1980, compared with 3.4 percent in 1975 (see Table 1). The proportion of half-nationalized firms declined from 0.8 percent to 0.6 percent.

Of all those gainfully employed the number in the private and half-nationalized economy declined by 0.6 percent to 5.2 percent (see Table 3).

The number of self-employed persons, including commission dealers, declined from 2.5 percent to 2.2 percent.

The lion's share--61 percent--of the 180,000 self-employed, is made up of the 112,500 handicraftsmen, of whom 83,800 owned their own business, including family members working with them (see Table 6). A special section in this study will discuss this segment. Another 11,900 self-employed are private businessmen of whom the vast majority are retailers and restaurateurs (see Tables 7 and 8). Added to these are 25,800 commission dealers and restaurateurs. These groups make up 83 percent of all self-employed persons.

The small, and declining, remnant, which number 29,800 and make up 0.6 percent of all gainfully employed persons, are those employed outside the handicrafts



and commerce, the small producers of agricultural products and the freelancers<sup>74</sup> (see Table 4). Each group is treated differently for tax purposes.<sup>75</sup>

#### 1. Private Retailers and Restaurateurs

Except for the handicraftsmen, the 12,100 private retailers,<sup>76</sup> restaurateurs and owners of small hotels, who employ 27,400 persons, are the largest closed group of those employed in the private economy. The 25,800 commission dealers and restaurateurs, who are no longer purely private, should not be included here. As the only form of enterprise with "state participation," they did not fall under the transformation action of 1972. The commission dealer no longer conducts business on his own but, as a rule, for a state trading organization. He pays 33 and 1/3 percent of the value as a bond for the goods. Through the commission trade it has been possible to subject retail dealers to state planning to a greater degree than before 1972. Private and commission dealers each account for 5.6 percent of the total turnover in the retail trade (see Table 7).

Of greater importance for the supply of essentials for the population are the commission restaurants. The commission restaurants numbered 7,672 in 1978, made up about 28 percent<sup>77</sup> of all restaurants (without factory canteens) and accounted for 13.7 percent of the total turnover in restaurant business. The 2,112 private restaurants, which in 1978 made up 8 percent of all restaurants, contributed only 2.8 percent of total restaurant sales. As a result of the promotion measures mentioned above, the share of private sales in total turnover hardly declined at all after 1976.

In domestic trade the share of the net product has increased noticeably for commission dealers and commission restaurateurs. According to statements by Erich Honecker at the 10th Party Congress of the SED, 7,500 business licenses have been issued in this sector since 1976.<sup>78</sup> The catastrophic situation in the restaurant sector in particular led to the creation of a new training program in the academic year 1976-1977.<sup>79</sup>

This new occupation for special workers in the restaurant and hotel business, who rank between cook and waiter, is designed to establish competence in the management of restaurants with no more than four employees after a training period of 2 years. Overall current opportunities for opening small private restaurants are relatively favorable at the present time. The results are already noticeable although official data are still lacking.

In the hotel business there are still a series of small private hotels such as inns. These private enterprises are of considerable significance because of the extraordinarily low hotel capacity in the GDR. Although there is no exact official data, nevertheless the share of the private hotel trade is about 25 percent of the country's total hotel bed capacity for 1980.<sup>80</sup> The purely private hotel establishments far outweigh those on a commission basis.

The promotion measures have had little effect so far on the training of apprentices in the private and commission business sectors. For 1980 a total of only about 400 apprentices were noted in this sector.

## 2. "Tradesmen"

In this group there were about 13,000 self-employed with about 11,000 employees in 1980. To the extent that they did not belong among the small enterprises with no more than 10 employees which enjoy a favorable tax status, they were liable for progressive taxes up to a maximum of 90 percent, which is reached with 250,000 marks of annual taxable income. This circle of entrepreneurs numbering a couple of hundred thereby represents the last "capitalists" in the GDR.

Divided according to economic sector those employed in trade in 1980 were distributed as follows:

(a) In transportation there were still 8,400 self-employed persons with 7,600 workers and employees. Their total share of the net transportation, post and telephone product came to 2.3 percent in 1980. Compared to 1979-1978 [sic] this once again represented a decline. The share of the remaining half-nationalized concerns is about the same (see Table 1). Included here are private truck owners, taxi owners, freight forwarders, owners of driving schools and a smattering of inland barge operators.

(b) The other 4,500 self-employed persons are split up among the remaining fields. Thus there were fewer than 200 private industrial entrepreneurs with some 1,700 employees. About 1,900 self-employed with 2,900 employees are engaged in other productive areas besides the handicraft industries. Considering their small number, it is certainly astonishing that they take in a relatively high share of 8.3 percent of the net product. This obvious contradiction could not be clarified.<sup>61</sup> The last group is the remaining 2,400 self-employed in the nonproductive areas. To these belong, for example, the 650 private showmen still in the GDR. The 27 private pharmacists could also be included in this group. Those private attorneys, patent attorneys and notaries who employ clerks with state examination diplomas also belong in this group. They then are considered as engaged in trade and are placed in the highest income tax category.<sup>62</sup>

## 3. Self-employed Persons in Agriculture and Forestry

In 1980 there were still 6,200 self-employed with 7,600 workers and employees registered in forestry and agriculture including kitchen gardening.<sup>63</sup> Their share of the net product was 3.8 percent in 1980, a slight increase from 1979. They too fall in the least favorable income tax category, which goes up to a maximum of 90 percent.<sup>64</sup> Sideline activities like a small agricultural producer, kitchen gardener, homesteader, breeder of small animals and fruit and vegetable picker are generally free from taxation.

Since 1977 members of and workers on agricultural cooperatives and workers on state-owned estates (VEG) have been given 0.25 hectares each, with a maximum of 0.5 hectares per family, of productive land for personal household use. Before the specialization and fusion of the agricultural producer cooperatives (LPGs) this regulation applied only to members of the old LPG type III. The importance of the contribution by individual household plots may be seen in

their disproportionately large share of output: in 1979 their share of the total production of pigs for slaughter was 14 percent, for beef cattle 10.5 percent, for eggs 40 percent and for vegetables 30 percent.<sup>65</sup>

At the 10th Party Congress, Erich Honecker supported a still greater exploitation of the individual household plots.

#### 4. Freelancers

The remaining group is the so-called freelancers. There were about 10,700 in this group in 1980, and by its nature it is the least homogeneous occupational group. It is divided into two categories: the larger group, the so-called freelance intelligentsia, which enjoys favorable tax status and a group of freelancers who do not enjoy favorable tax status. The freelance intelligentsia is made up of those who perform "socially recognized" work, for example, those employed in cultural and pedagogical activities and in the health industries. They are writers, artists, musicians, doctors in private practice, dentists, veterinarians, midwives and inventors. This group falls into the lowest category of taxation with a maximum tax liability of 30 percent, which is reached with 36,000 marks annual income. Numerical data for the self-employed in these categories cannot be given except for doctors. According to available data, there were 953 doctors and 1,148 dentists with their own practice in 1979.<sup>66</sup>

The number of private doctors and dentists has steadily declined since 1975. For both of these professions it must be assumed that there is hardly any interest in entering private practice in the GDR despite tax privileges because private practitioners have heavier work loads than do those employed by the state.

Freelancers who do not enjoy favorable tax status include commercial artists, engineers, architects, filmmakers, translators, city guides, food chemists and lawyers (there are still about 30) and food chemists. These professionals may not employ any person with a higher degree and are subject to progressive taxation up to a maximum of 60 percent, which is reached with an annual income of 100,000 marks.

A decree on honoraria and other legal prescriptions regulates the income of freelancers. Severe limitations on the establishment of new practices and the basic injunction against employment of new workers have caused a steady shrinking of these groups up to 1978.

From 1978 to 1980, there was a relatively sharp increase of about 1,600 in the number of freelancers. Its cause can be seen in the easing of the conditions for license regulations and certain tax advantages,<sup>67</sup> which, however, became effective only starting in 1980.

#### VI. Private Handicraftsmen

The handicraft industry is the only sector in the GDR economy in which private owners of the means of production contribute almost 60 percent of total sales.

In this connection, however, it must be noted that, in contrast to the handicraft industries in the FRG, this economic sector is considerably less important because of the limitation of 10 employees for private enterprises and the other more limiting measures. Thus the total of all those employed in the handicraft industries, including PGHs, in the GDR is today less than 5 percent of the total workforce, while in the FRG it is about 16 percent. The contrast in training is still more glaring. While handicraft industries in the FRG, with more than 40 percent of the total of apprentices, are the most important source of training, GDR handicraft industries have only 6 percent. No less important is the significance of the handicraft industries for the so-called tertiary sector which, however, is still very underdeveloped in the GDR. Thus in 1980 the private handicraft industries in the FRG performed over 56 percent of all repairs and services by handicraftsmen, excluding construction.

The imposition of limits on handicraft industries early in the history of the GDR was supposed to guarantee that the handicraftsmen--discriminatingly designated as "individual handicraftsmen" since 1950--would retain their character as "goods producers," in contrast to industry, and thereby could become the so-called partners of the working class. In each socialization phases of 1958-1960 and 1969-1975, the private handicraftsmen were rebuked for developing into capitalistic exploiters. It was characteristic of both phases that the owners of private concerns were personally attacked in the press when they resisted being taken over by the socialist PGHs.

The course correction of 1976 had obvious effects.<sup>26</sup> The 30,000 business licenses issued since 1976<sup>27</sup> reduced the decline of the private handicraft enterprises considerably. From the end of 1975 to the end of 1980 the number declined by only 4,800 whereas in the 5 previous years the number of enterprises had declined by 27,850. The decline in the number of employees in the second half of the 1970s totaled only 26,000 compared to 75,250 in the first half. Support for apprentices had a very decisive impact. Since up to 1975 hardly any apprentices were allocated, their number declined from 22,600 at the end of 1970 to half that number, or 11,400, by the end of 1975. In contrast, by the end of 1980 there were once again 14,500 apprentices in private handicraft industries. The drastic decline in the first half of the 1970s will, however, continue to have a negative impact on the apprentice situation in the future.

Because GDR statistics on handicraft industries are very skimpy, only very rough statements can be made on the effects of the promotion policy on a few crafts. The most favorable development after the granting of business licenses was in the private construction trades with a net growth of 1,367 enterprises since the end of 1975, in the electric trades with 877 enterprises, and in trades involving street vehicles and tractors with 375 enterprises. Most of these new enterprises were one-person operations, predominantly in the repair sector, which opened because of preferential tax treatment.

Severe declines totaling over 3,100 enterprises occurred in the clothing, shoe, leather and tobacco goods sectors. Even in the service trades enjoying special support the number of concerns have declined by almost 900 since 1975.

It is remarkable that, after an initial net increase in the number of all concerns in 1978, their number again declined in 1979 and 1980. The issuance of business licenses apparently could not keep up with attrition through retirement.

One group in the handicraft industry, the artist craftsmen, has enjoyed continuous support from as early as 1973. As "recognized artistic craftsmen," they have enjoyed since 1973 the special advantages under the tax laws for the freelance intelligentsia.<sup>87</sup> This advantage has certain drawbacks. On the one hand, the nationalization action of 1972 caused much damage to this group. Ninety-two production cooperatives in the glass and ceramics fields, with 11,000 employees, were nationalized, 11 PGHs with 340 employees still remain and the number of private concerns has declined steadily. On the other hand, at the beginning of the 1970s the start of an intensive wave of restoration stimulated great demand for the services of artistic craftsmen. According to the chairman of the Council for Artistic Handicrafts in the Ministry of Culture, "Nationalized handicraft workshops have in recent years decided on production on an industrial scale and have, to a certain extent, lost the skills of many master craftsmen."<sup>88</sup> Only the most recent measures for the promotion of certain rare occupations could put a stop to further decline in this sector by 1979. Of the 150 special subjects which have been reintroduced since 1979 into the examination for master craftsmen, 33 were declared to belong to the so-called rare occupations.<sup>89</sup> To some extent these categories were occupations which had already died out and which were now reactivated. These occupations include craftsmen, for example, master coppersmiths, metal pressers, engravers, blueprint makers, glass engravers, glass painters and lead glass makers, who can help in the preservation of the "cultural tradition and the restoration of culturally and historically significant edifices."

Even though in principle the promotion policy since 1976 has set a positive tone, it should not be overlooked that individual freedom of action even for private handicraftsmen is nevertheless becoming severely limited. Thus there is only one handicraft enterprise with a maximum of one full-time worker which enjoys a favorable comprehensive tax. All the others pay a supplementary tax, a profit and wages tax, a turnover tax and a production fund tax, which is analagous to the production fund contribution in the state enterprises. As a matter of principle, contacts with regular suppliers may no longer be established and existing contacts generally had to be dissolved in the course of the 1972 restructuring. This limitation is especially burdensome because through the delivery contacts, that is, through production, much more income can be earned than through repairs and services, whose prices are subject to stringent regulations.

The granting of business licenses is, to a large extent, tied to planning targets. They can be withdrawn if the targets are not reached. Distribution of materials and investment opportunities are more difficult than in the PGHs, which are given preferential treatment. Distribution of materials and sales are handled for the most part by the purchase and delivery cooperatives (ELGs), which acquired their management functions immediately after the war. As mentioned before, self-governing organs no longer exist and the activities of the district chambers of the handicraft industry have, in the main, been



reduced to giving advice and political education. Responsibility for training apprentices was withdrawn as early as 1950 and for training masters in 1970.

Collaboration among groups supplying essential goods must be recognized as the most serious limitation at the present time. Enterprises of all forms of ownership are combined in these groups and the state enterprise always provides the management. Through his work in the groups supplying essential goods the private entrepreneur in all his activities including his contacts with his customers, is almost totally drawn into state planning and management. While already half of the PCHs are working in these groups supplying essential goods, resistance against them by the private handicraftsmen have been widely successful so far. In the new 5-year planning period tendencies toward rigorous concentration of the private handicraft industries have been noted. As early as the summer of 1980, the deputy minister for district managed industry and foodstuffs industry, Lohsse, announced that henceforth all concerns providing essential supplies should be drawn into state conceptions.<sup>93</sup>

## VII. Conclusion and Prospects

A pseudodemocratic instrument for dealing with the private economy is the so-called alliance policy conceived by Marx and Lenin of the working class and the Communist Party with the working peasants and the other classes. Only in the GDR and in Poland do the so-called bourgeois parties still exist as representatives of classes besides the working class. They act as auxiliary agents in carrying out SED policies as, for example, in the nationalization action of 1972.

From the most recent actions within the framework of this "alliance policy" certain projections can be made for the next few years. Thus, as already mentioned above, since 1980 private handicraftsmen and tradesmen were inducted into "socialist cooperation." After the 10th SED Party Congress in April 1981 the LDPD, the largest "bourgeois" party including the CDU and the NDPD, started a politico-ideological campaign in preparation for its own 13th Party Congress in April 1982, which was described by the secretary of the central committee of the LDPD, Holland, as "the most comprehensive initiative" of the LDPD up to now.<sup>94</sup> Within the framework of this initiative more than 15,000 "personal political" conversations with LDPD members in handicrafts and trade were conducted under the motto "alliance contribution to economic growth." As a result, the chairman of the LDPD, Manfred Gerlach, announced at the 13th Party Congress in Weimar in April that altogether 75,255 commitments for 1982 had already been made by handicraftsmen, tradesmen, retailers and restaurateurs belonging to the party.<sup>95</sup> These run the gamut from production commitments to reduction in energy use and participation in socialist community work. In the last point Gerlach explained that "socialist community work under the guidance of a state enterprise, which was repeatedly shifted into the field of vision of the handicraft industry by our party in the past, is imperative in the 1980s for the higher development of production capacity."<sup>96</sup> He clarified the limitations of the support policy since 1976 by noting that "at the same time we will support all measures in the future for the maintenance and expansion of private handicraft capacities.... The point of departure must always be the actual need of the people." Gerlach stated equivocally that "thus our

party will continue to devote great attention to the problems of the handicraftsmen and tradesmen and commit itself responsibly to their solution in accordance with the alliance policy." Despite the claim made about the strategic significance of the measures, there is no doubt whatsoever that the posture of the LDPD was a practical reaction to the needs of the moment, which made no change in the economic system whatsoever. This most recent development can be called a counteraction. The renewed forced curtailment of the few remaining authorizations, such as demonstrated by the increasing inductions into the work of the groups providing essential supplies, will once again cripple private initiative.

In this connection it must also be borne in mind that in the course of time this restricted framework will undermine the incentive to engage in private enterprise. The lack of readiness to establish a private practice as a doctor, for example, is an indication of this decline.

The generation which regarded economic independence despite all restrictions as worthwhile is dying out in the GDR. On this point Anders Aslund<sup>97</sup> points to the advanced age, the conservative attitude, steadfast loyalty to the law<sup>98</sup> and good morale as characteristic features of the average self-employed person in the GDR. Astonishing perseverance and adaptability might also be added. This phenomenon is certainly a relict in the Eastern Bloc, which, despite all the pressures, could only survive in the GDR because it has gradually given preference to pragmatism over ideology, at least in its policy toward the handicraft industries.

#### Epilogue

After this paper was completed, there appeared a regulation which was designed to propagate yet another form of "socialist" operating method. This time the intervention applies to the privileged group of freelance intelligentsia. It is the recent "Decree on the Training of Faculties of Creative Artists" dated 1 April 1982.<sup>99</sup> The introductory lines of the decree state that "the further development of creative and applied art is closely tied to the improvement of the conditions in which artists live and work in socialist society. Artistic activity in collective forms and cooperation with socialist enterprises and institutions in the artistic arrangement of residential areas, social centers and institutions therefore gains increasing significance." The faculties are "voluntary" unions of freelancers and dealers in creative and applied art. The prerequisite for training is a union of at least three members. Members of these groups can thereby become members and candidates of the League of Creative Artists of the GDR including their artistic assistants, graduates of institutions of higher learning for creative and applied arts and holders of state authorizations for freelance artistic activity.

The model statute in the appendix provides, among other things, that activity as a member of the art college is the main occupation. Side activity and the sale of artistic works made outside the requirements of the job and consistent with the main professional field of work are not permissible. Subjecting individual creative work such as that of a painter or a sculptor to planning and predictability as in a "production collective" is certainly one of the brilliant achievements of real socialism.

Table 1  
Share of the Private Economy  
in Net Product<sup>1</sup> by Economic Sector  
(actual prices)

Year	Total <sup>2</sup>	Industrial and Produc- ing Handi- craft Indus- tries without Construction	Construction Sector	Agriculture <sup>3</sup> and Forestry	Transporta- tion Post and Telephone	Domestic Trade	Other Producing Branches
1950	43.2 -	31.2 -	58.7 -	96.6 -	16.3 -	39.3 -	16.3 -
1970	5.6 (8.3)	5.6 (11.6)	19.1 (10.3)	4.6 (0.1)	3.0 (3.7)	5.7 (7.1)	2.9 (3.1)
1972	4.3 (1.)	3.9 (0.0)	8.4 (0.0)	4.1 -	3.0 (3.0)	4.0 (5.9)	2.4 (0.7)
1975	3.4 (0.8)	3.3 (0.0)	7.0 -	3.5 -	2.6 (2.3)	2.7 (4.3)	1.8 (0.6)
1976	3.4 (0.7)	3.1 (0.0)	6.5 -	3.7 -	2.5 (2.2)	2.3 (4.1)	7.3 (0.1)
1977	3.2 (0.7)	2.9 (0.0)	7.1 -	3.4 -	2.6 (2.5)	2.2 (4.0)	7.4 (0.1)
1978	3.0 (0.6)	2.6 -	7.4 -	3.2 -	2.7 (2.5)	2.2 (4.0)	7.4 (0.1)
1979	3.1 (0.7)	2.4 -	8.2 -	4.2 -	2.8 (2.4)	2.7 (5.4)	7.9 (0.1)
1980	3.0 (0.6)	2.3 -	6.8 -	3.8 -	2.3 (2.2)	2.6 (5.4)	8.3 (0.1)

1. "Net product" is that portion of the actual gross product of enterprises and branches of the productive sector which remains after deduction of production costs (basic depreciation such as rents, leases and compensation for use of alien assets, consumption of materials and productive work).

2. Share of enterprises with state participation is included in brackets.

3. Excluding net product of household and other small plots, including forestry.

Source: Statistical Yearbooks of the GDR 1976, 1981, pp 35 and 79.

Table 2. Privately Employed Persons in the GDR  
(In 1,000s)

Economic Sector	Self-employed			Workers and Employees			Apprentices		
	1970	1975	1980	1970	1975	1980	1970	1975	1980
Industry	9.1	0.3	0.2	73.4	2.5	1.7	1.0	0.0	0.0
Productive handicraft industries (excluding construction)	122.2	92.9	84.6	143.0	115.3	105.8	15.6	8.5	11.1
Construction sector	18.9	14.5	15.3	33.7	21.1	21.2	4.8	1.9	2.3
Agriculture and forestry	9.3	7.2	6.2	12.4	8.7	7.6	0.3	0.1	0.1
Transportation	11.4	9.3	8.4	10.8	8.5	7.6	0.0	0.0	0.0
Trade	27.0	16.8	12.1	48.8	33.4	27.4	0.7	0.2	0.2
Other productive branches	3.2	2.0	1.8	5.8	3.0	2.2	0.1	0.0	0.0
Nonproductive branches	35.4	27.4	25.6	100.2	72.9	64.8	4.9	2.6	2.1
Total	236.6	170.4	154.2	428.2	265.5	238.4	27.5	13.3	15.9

†Including cooperating family members (1979 about 1%), excluding commission dealers

Sources: Statistical Yearbooks of the GDR 1972, 1976, 1981.

Tabl. 1. Percentage of Employed Persons in Economic Sectors by Form of Ownership, 1980

Sector	State-owned	Cooperatives	Half-Nationalized	Private
Industry	98.2	1.7	0.0	0.1
Productive handicraft industries (excluding construction)	-	26.4	-	73.6
Construction	74.7	19.0	-	6.2
Agriculture and forestry	18.5	79.9	0.0	1.6
Transportation, post and telephone	97.3	-	0.0	2.6
Trade <sup>1</sup>	62.9	26.5	5.9	4.6
Other productive branches	97.2	1.2	0.0	1.5
Nonproductive branches	91.7	2.8	-	5.5
Total <sup>2</sup>	79.9	14.7	0.6	4.8

1. Almost exclusively retail trade.

2. Because the GDR does not indicate certain employed persons such as National Peoples Army and Volkspolizei, the percentages in the nonstate sector are somewhat too high.

Source: Statistical Yearbook of the GDR 1981, p 91. The percentages have been calculated.



Table 4.

Economic Structure of the Profitably Self-Employed in the GDR  
(Including Collaborating Family Members)  
(in 1,000s)

Year	Total	Half-nationalized enterprises	of the Total				
			Private				
			Total	of the total <sup>1</sup>			
				Individual peasants and private gardeners	Trade <sup>2</sup>	Handi-craft industry	Free-lancers
1949	2,413.0	-	2,413.0	.	.	.	.
1950	2,176.6	-	2,176.6	.	.	.	.
1955	1,579.2	-	1,579.2	1,029.0	148.3	320.0	33.9
1960	423.7	5.8	418.0	34.3	99.7	229.8	24.4
1965	340.1	6.6	333.5	13.8	77.2	198.5	18.8
1970	268.2	5.7	262.1	9.3	58.7	155.2	15.6
1971	258.9	6.3	252.1	8.3	56.9	149.5	14.3
1972	235.7	-	235.7	8.7	53.2	142.1	12.8
1973	221.8	-	221.8	8.1	49.1	135.2	12.0
1974	208.5	-	208.5	7.5	45.0	128.3	11.3
1975	196.8	-	196.8	7.2	42.3	121.2	10.7
1976	185.8	-	185.8	6.6	40.6	115.2	9.7
1977	181.8	-	181.8	6.4	39.2	114.0	9.3
1978	181.1	-	181.1	6.2	39.0	113.7	9.1
1979	182.2	-	182.2	6.3	38.7	113.7	10.6
1980	180.0	-	180.0	6.1	37.7	112.5	10.7

1. Through alterations in the definition of economic sectors slight shifts occurred in the development series which could not be eliminated. The number of the self-employed and collaborating family members in handi-craft industries in 1955 had to be estimated.

2. This section includes commission dealers.

So ces: Assembled and calculated from figures in the Statistical Yearbooks of the GDR 1955-1981.

Table 5.

## Structure of Private Enterprises

Year	Handicraft Industry	Retail trade		Restaurants		Industry		Construction <sup>2</sup>	
		Private	Commis- sion trade	Private	Commis- sion trade	Private	BSB	Private	BSB
1950	303,821	156,588 <sup>1</sup>	.	33,422	.	17,543	.	3,454	.
1955	248,212	139,429	.	27,371	.	13,782	.	1,608	.
1960	173,000	94,608	11,554	10,052	8,281	6,476	4,455	594	779
1966	139,020	67,784	13,249	5,805	9,599	4,069	5,512	300	836
1971	111,723	44,188	13,011	.	.	2,976	5,658	190	821
1973	99,418	.	.	2,821	8,505	ca. 500	ca. 100	-	-
1977	85,111	29,527	9,958	.	.	ca. 300	ca. 100	-	-
1978	85,218	.	.	2,112	7,672	ca. 200	ca. 50	-	-
1979	84,685	.	.	.	.	ca. 200	-	-	-
1980	83,821	.	.	.	.	ca. 200	-	-	-

1. This figure is for 1952.

2. Excluding construction handicraft industries.

Sources: Statistical Yearbooks of the CDR 1955-1981

Table 6.

## Ownership Structure in the Handicraft Industries in the CDR

Year-end status	Private concerns	Employed persons excluding apprentices	Percent of total production	Production cooperatives in handicraft in- dustries (PCIs)	Total employed	Percent of total production
1950	303,821	858,300	100.0	--	--	--
1955	248,212	851,800	99.7	85	2,800	0.3
1960	173,243	434,100	70.6	3,878	150,800	29.4
1965	146,764	368,500	59.8	4,198	205,300	40.2
1970	116,478	347,500	50.1	4,458	260,200	49.9
1972	105,728	322,400	65.8	2,779*	139,700	34.2
1975	88,635	272,300	61.7	2,793	145,200	38.3
1976	85,336	260,100	60.4	2,786	147,500	39.6
1977	85,111	251,400	60.0	2,771	149,700	40.0
1978	85,218	247,900	59.8	2,767	151,500	40.2
1979	84,685	246,900	59.7	2,757	153,700	40.3
1980	83,821	246,300	58.9	2,751	156,300	41.1

\* PCI sales declined by 68 percent over 1971 as a result of the nationalization of productive PCIs in the spring of 1972.

Sources: Statistical Yearbooks of the CDR 1955-1981.

Table 4

Number of private concerns in selected branches of handicraft industry<sup>1</sup>  
Production in million marks and percentage of total handicraft industry production

Branch of handicraft industry	1972			1975			1980		
	Concerns	Production	Percentage	Concerns	Production	Percentage	Concerns	Production	Percentage
All branches	105,728	8,910	65.8	88,635	8,418	61.7	83,821	9,641	58.9
Meat processing	3,209	1,126	74.0	2,733	1,739	72.0	2,378	1,887	71.6
Machinery and vehicle industry	15,904	1,506	70.5	13,790	1,390	69.9	13,932	1,769	59.5
Other productive handicraft industry (excluding construction)	12,770	1,656	93.3	10,453	1,528	91.6	8,490	1,495	88.5
Construction handicrafts	13,502	1,184	40.1	11,618	1,047	36.2	12,985	1,360	37.4
Electrotechnical, electronics	5,401	727	50.8	4,757	685	45.0	5,634	875	43.7
Wood processing	13,241	723	76.5	11,454	696	75.2	10,845	721	70.6
Handicraft industry services	12,637	354	50.0	10,633	323	43.2	9,741	350	38.5
Leather, shoes, tobacco products	8,781	255	71.6	6,580	216	66.3	5,005	226	63.5

1. This covers 82 percent of all private handicraft industry enterprises which account for about 88 percent of private handicraft production.

2. Primarily food processing without meat processing.

Sources: Statistical Yearbooks of the GDR 1973, 1976, 1981; percentages calculated.

Table 8. Percentage of Private Retailers, Restaurateurs, Commission Dealers, and Restaurateurs in Retail Trade and Restaurant Sales

Year	Private retailers	Commission dealers	Private restaurateurs	Commission restaurateurs
1950	50.4	--	68.4	--
1960	16.4	5.4	16.3	15.9
1970	10.5	8.3	5.8	19.6
1977	7.0	6.1	3.3	15.1
1979	5.8	5.7	2.8	13.6
1980	5.6	5.6	2.8	13.7

Sources: Statistical Yearbook of the GDR 1981, pp 223 and 226; percentages calculated.

Table 9. Private Employed Persons in Trade  
(in 1,000s)

Employed persons	1965	1970	1975	1980
Private wholesalers and retailers <sup>1</sup>	76.8	27.0	16.8	11.9
Workers and employees	88.6	48.8	33.4	27.4
Commission dealers <sup>2</sup>	0.4	31.9	27.1	25.8
Workers and employees	6.7	38.7	27.4	24.7
Apprentices (total)	1.9	1.3	0.5	0.4
Total	174.4	147.7	105.2	90.2
Percentage of employed persons in trade (including apprentices)	18.8	16.5	11.8	10.3

1. This figure includes collaborating family members. There are hardly any private wholesalers now.

This includes private restaurants. In 1978 there were 2,821 private restaurants.

2. This includes collaborating family members and commission restaurateurs. In 1978 there were 7,672 commission restaurants.

Sources: Statistical Yearbooks of the GDR 1966, 1972, 1977, 1981; percentages calculated.



# FOOTNOTES

1. Cf. G. I. Schmeljow, "Socialist Agricultural Production and Individual Side Cultivation," SOWJETWIRTSCHAFT. GESELLSCHAFTSWISSENSCHAFTLICHE BEITRAEGE, No 6, 1981, pp 840 ff.
2. Quoted from PRESSE DER SOWJETUNION, No 42, 1977, p 5.
3. Cf. Karl C. Thalheim, "The Economy in the New Constitution of the USSR," OSTEUROPA, Vol 1, 1978, p 22.
4. Klaus Westen, "Civil Law," OSTEUROPA-RECHT, Vol 1/2, 1978.
5. Ibid.
6. Cf. Karl C. Thalheim and Maria Haendcke-Hoppe, "Handicraft Industry in East Berlin and Central Germany," in JAHRESBERICHT 1968 DER HANDWERKSKAMMER BERLIN, and Thalheim and Haendcke-Hoppe, "Handicraft Industry in East Berlin and the GDR," in JAHRESBERICHT 1969.
7. Cf. Gregory Grossman, "The 'Second Economy' of the USSR," PROBLEMS OF COMMUNISM, September-October 1977, p 25 ff.
8. K. S. Karol, "Conversations in Russia," THE NEW STATESMAN (London), 1 January 1971, pp 8-10, quoted in Grossman, op. cit. Karol is considered the inventor of the terms "second economy" and "parallel market."
9. Ibid.
10. Gur Ofer and Aaron Vinokur, "Private Sources of Incomes of the Soviet Urban Household," Rand Corporation, Santa Monica, USA, August 1980. This work contains more information on literature.
11. A. Katsenelinboigen, "Coloured Markets in the Soviet Union," SOVIET STUDIES, No 1, 1977, pp 62-85.
12. Cf. especially Karl-Eugen Waedekin, "Private Producers in Soviet Agriculture," Cologne, 1967; "The Private Sector in Soviet Agriculture," University of California Press, 1973; and "Socialist Agricultural Policy in Eastern Europe, Part II. Development and Problems, 1960-1976," (Center for Continental Agricultural and Economic Research of the Justus Liebig University, Giessen, Vol 67, 1978, pp 41 ff.
13. Cf. Gur Ofer and Aaron Vinokur, op. cit., p 3. From this wave of immigration from the Soviet economy, which has been closed off for 50 years, into a small territory (Israel is about the size of the state Hesse), it has been possible to gain a unique perspective on the confrontation between the behavioral patterns developed in the Soviet economy and those expected in a market economy. This conflict could be studied in the much larger FRG only very briefly and very incompletely even at the height of the flight from the GDR to the FRG in 1960-1961.

14. Cf. FS-ANALYSEN [Professional School Studies], No 9, 1976, and No 2, 1978-1982.
15. Karl C. Thalheim and Maria Haendcke-Hoppe, "Handicraft Industries in the GDR and East Berlin," published annually since 1963.
16. The paper is based on a lecture given at the scientific meeting of the Goettingen Study Group and the Society for Research on Germany on 30 October 1981 in Goettingen. It will appear soon in WIRTSCHAFTS-VERFASSUNG UND WIRTSCHAFTSPOLITIK DER DDR [Economic System and Economic Policy in the GDR], published by the Goettingen Study Group.
17. Papers on the second economy are currently being prepared at the Federal Institute for Eastern and International Studies.
18. Cf. for details Karl C. Thalheim, "The Soviet Occupation Zone of Germany," in DIE SOWJETISIERUNG OST-MITTELEUROPA, 1945-1957 [The Sovietization of East-Central Europe, 1945-1957], Frankfurt am Main, Berlin, 1959, pp 338 ff.
19. About 200 of the largest industrial concerns were at first transferred to Soviet ownership as "SAG [Socialist work group]-concerns" but were later returned to the GDR as "state property."
20. Cf. Karl C. Thalheim, "The Soviet Occupation Zone of Germany," op. cit., p 346.
21. Cf. 9 September 1950, LAW GAZETTE (hereinafter cited as GBl), p 827.
22. Announcement of the model statutes of the agricultural production cooperatives, dated 19 December 1952, GBl, p 1357.
23. Decree on the production cooperatives for handicraft industries, dated 31 August 1955, GBl, p 597.
24. Thus the number of employees in the private sector in 1955, was slightly over that of 1954. The number of freelancers rose by 4,500, an increase of 11 percent.
25. Decree on the formation of half-nationalized enterprises, dated 26 March 1959, GBl, p 253. Cf. in this connection Katja Wagner, "On the Socialist Transformation of the Private Capital Sector of Industry in the GDR," East Berlin, 1963, pp 73 ff.
26. Walter Ulbricht, "On the Socialist Development of the Economy since 1945," East Berlin 1959, p 699.
27. Ibid., p 697.
28. In contrast to later periods, GDR literature on this period of the transformation of the private ownership of the means of production is available. Thus Katja Wagner, op. cit., and Werner Mussler, "The Capitalist Sector of Industry as a Problem of the Transition Phase," East Berlin in,

1951, and Eberhard Lohse and Siegfried Voigtsberger, "Handicraft Industries, Private Industry and the Building of Socialism," East Berlin, 1959.

29. NEUES DEUTSCHLAND, 10 June 1960.
30. DER MORGEN, 7 July 1960.
31. GB1 II, 1969, p 723.
32. "Authors Collective," Berlin, 1969, pp 168 ff.
33. For more details in this policy, see Maria Haendcke-Hoppe, "The Socialization Action in the Spring of 1972," DEUTSCHLAND ARCHIV, Vol 1, 1973, pp 37 ff. This economically significant action has hardly been analyzed in the West up to now.
34. Because the total share in light industry for private concerns and BSBs remained constant in 1971 as compared to 1967, the shares in the individual branches of light industry in 1967 also corresponded approximately to those in 1971.
35. DER MORGEN, 17 February 1972.
36. NEUES DEUTSCHLAND, 16 March 1972.
37. NEUES DEUTSCHLAND, 20 April 1972.
38. NEUES DEUTSCHLAND, 28 April 1972.
39. Ibid.
40. NEUES DEUTSCHLAND, 18 December 1971.
41. Both decisions became known only in May. Cf. Alois Pisknik in VOLKSSTIMME (SED-organ for the Magdeburg district), 10 May 1972. The decisions have not been published to this day.
42. Cf. Maria Haendcke-Hoppe, "The Handicraft Industry Policy of the SED in 1976," FS-ANALYSE, No 9, 1976. See also Haendcke-Hoppe, "On the State of Domestic Commerce," FS-ANALYSE, No 2, 1977, pp 24 ff; "The Restaurant Business in the GDR," FS-ANALYSE, No 4, 1979, p 52; "Course Corrections in the Handicraft Industry Policy of the GDR," DEUTSCHLAND ARCHIV, Vol 12, 1981, pp 1276-1284.
43. GB1 II, p 541.
44. Cf. DAS NEUE HANDWERK [The New Handicraft Industry], No 23/24, 5 December 1974.
45. GB1 I, 1976, p 193.

46. GB1 I, 1976, p 143.
47. GB1 II, 1971, p 72.
48. GB1 I, 1976, p 221.
49. 6 February 1976.
50. DAS NEUE HANDWERK, No 20, 1976.
51. See also Sigtraut Finzelberg, "The Strengthening of the Socialist Conditions of Production and the Leading Role of the Working Class Through the Reformation of State Enterprises in the First Semester of 1972," JAHRBUCH FUER WIRTSCHAFTSGESCHICHTE [Yearbook for Economic History], Vol 1, 1975, pp 20 ff.
52. NATIONAL ZEITUNG, 10 August 1976.
53. DER MORGEN, 10 June 1976.
54. Thus, for example, Rosel Walther, directress of the Central Party School of the NDPD, "Approaching the Working Class--Direction of Development of the Alliances," NATIONAL ZEITUNG, 1 April 1976, and Rudolf Agsten, secretary of the Central Committee of the LDPD, "Rapprochement of the Classes and Social Strata--What Does It Mean?" DER MORGEN, 25 August 1976. Cf. for details in this connection Haendcke-Hoppe, "Handicraft Industry Policy of the SED," op. cit., pp 19 ff.
55. "Fifth Meeting of the Central Committee of the SED," 17-18 March 1977, East Berlin, 1977, p 21.
56. Albert Norden, "The Alliance Policy of the SED," lecture in PARTEIENHR-JAHR DER SED, held 10 October 1977, East Berlin, 1977, p 31.
57. Janine Haschker, "On the Alliance Policy of the SED towards Handicraftsmen and Tradesmen after the Eighth Party Congress of the SED," ZEITSCHRIFT FUER GESCHICHTSWISSENSCHAFT (ZfG) [Journal of Historical Science], Vol 11, 1981, p 990. The author is an employee of the Institute for Marxism-Leninism at the Central Committee of the SED.
58. Ibid., p 989.
59. Ibid.
60. Ibid., p 995. In note 35 Haschker refers to FS-ANALYSE, "The Handicraft Industry Policy of the SED," No 9, 1976.
61. Ibid., p 991.
62. Ibid., p 992 ff.

63. Ibid., p 993.
64. Mampel believes that the reference in Articles 9, paragraph 1, of the constitution to "the socialist ownership of the means of production" (emphasis added) is an oversight in the editing of the text of the constitution. Cf. Siegfried, "The Socialist Constitution of the German Democratic Republic," KOMMENTAR, 2d ed, Frankfurt am Main, 1981, Article 9, marginal note 3, p 291.
65. Siegfried, op. cit., Article 14, marginal note 15, pp 421 ff.
66. In this connection one may perhaps speculate that if the constitution had been amended later than 1974, Article 14, paragraph II might have been given a somewhat more tactful formulation, in view of the promotion policy of 1976 for small private enterprises.
67. Cf. Mampel, op. cit.
68. See in this connection Haendcke-Hoppe, "The Socialization Action," op. cit., pp 38 ff.
69. Guenther Mittag in NEUES DEUTSCHLAND, 7 December 1972.
70. GBl II, p 541.
71. GBl I, p 378.
72. Cf. in this connection Klemens Pleyer and Joachim Lieser, "Private and Self-nationalized Enterprises in the Centrally Planned Economy of the Soviet Zone of Occupation," RECHT IN OST UND WEST, Vol 3, 1967, pp 99 ff.
73. GBl 1953, p 942, and GBl I, 1973, p 126.
74. The activity of both groups is not regulated under the decree on tradesmen's activities of 1972. GBl II, 1972, p 541.
75. Cf. in this connection Herwig E. Haase, "Taxes in the Collection System in the GDR," FS-ANALYSE, No 1, 1977, pp 31 ff.
76. For all practical purposes there are no longer any private wholesalers in the GDR.
77. In the Statistical Yearbook of the GDR for 1978 only restaurants including factory canteens were identified.
78. GBl I, NEULAND, 12 April 1981, p 6.
79. GBl Special Edition No 853, 1976. Cf. in this connection also Maria Haendcke-Hoppe, "The Restaurant Business in the GDR," op. cit., p 52 ff.



80. This estimate is based on the Hotel Guide of the GDR, 1980 ed. Because hotels with less than 10 beds, that is, small pensions, are not contained therein, the number may still be over 25 percent.
81. This figure may be due to statistical rounding off.
82. GBI Special Edition No 1016, 1979.
83. The workers and employees mentioned here may be primarily those employed on church estates.
84. Certain discounts apply in the sale of fruits and vegetables to the people. GBI Special Edition No 1016, 1979, p 6. Since 1978 there have been tax advantages in the sale of young tobacco plants from small private household plots, GBI, p 82.
85. Cf. in this connection Karl Hohmann, "From Optimism to Realism--the Agricultural Policy Goals of the SED," Selected Economic and Social Political Aspects of the 10th Party Congress of the SED, FS-ANALYSE, No 3, 1981, p 49.
86. THE HEALTH SYSTEM IN THE GERMAN DEMOCRATIC REPUBLIC 1980, East Berlin 1980, p 174.
87. GBI Special Edition No 1016, 1979.
88. For more details in this connection, see Maria Haendcke-Hoppe, "Course Corrections in Handicraft Industry Policy," DEUTSCHLAND ARCHIV, Vol 12, 1981, and Karl C. Thalheim and Maria Haendcke-Hoppe, FS-ANALYSEN, No 2, 1978-1982.
89. DAS NEUE HANDWERK, No 11, 1981.
90. GBI I 1973, p 340.
91. Radio GDR II, 19 June 1976, quoted from the RIAS monitor.
92. GBI I 1979, p 273. As late as 1975, that is, immediately before the course correction, the positive list was reduced to only 63 specialties. A large number of special occupations disappeared as a result (GBI I 1975, p 173).
93. DAS NEUE HANDWERK, No 14, 1980.
94. DER MORGEN, 9 September 1981.
95. DER MORGEN, 6 April 1982, p 6.
96. Ibid., p 7.

97. "A comparison of the private sector in Poland and the German Democratic Republic," manuscript of a seminar presented at St. Antony's College, Oxford, in January 1982, p. 4.
98. As an example of this, Aslund cites information supplied by the Dresden District chamber of Handicraft Industry, according to which only 12 handicraftsmen were cited in 1979 and 1980 for economic violations. Ibid., p. 3.
99. GBl I 1982, p. 344. As early as 1953 the lawyers in similar state-directed faculties were collectivized. See "Decree on the Formation of Faculties of Lawyers," GBl, 1953, p. 725, and "Law on the Faculties of Lawyers of the German Democratic Republic" as well as the model statute GBl I, 1981, p. 1.

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# STANISLAW ALBINOWSKI'S ECONOMIC WORKS FAVORABLY REVIEWED

Warsaw TRYBUNA LUDU in Polish 4 Jan 83 p 4

[Review by Dr Habilitatus Zygmunt Knyziak, professor at the Main School of Planning and Statistics (SGPiS), member of the Commission for Economic Reform, and member of the Advisory Economic Council of book "Alarm: dla gospodarki trwa" ["The Alarm for the Economy Continues To Sound] by Stanislaw Albinowski, Interpress, 330 pages; passages enclosed in slantlines printed in boldface]

[Text] /The selection of Stanislaw Albinowski's expertise and journalism from the years 1976-1982 currently published in book form belongs to the type of reading material which should be of interest not only to economists. The title accurately conveys the theme of the book: "The Alarm for the Economy Continues To Sound"--alarm for the Polish economy./

The items presented in the selection encompass three closely related subject areas:

--analysis of the economic situation including the causes of the economic crisis whose imminence had been foreseen by the author many years ago;

--economic reform;

--plan and ways of emerging from the crisis.

/Important arguments with a more general character and social significance arise from the contents of the articles. They accurately combine theoretic thought with the experiences of our economic practice./ I shall mention here only those which are most important:

--the thesis that it is impossible to create an ideal economic system; it is necessary, however, to strive for this goal through the process of constantly improving the methods of the economy's functioning in its adjustment to changing conditions;

--the thesis that even the best economic system does not automatically assure the functionalism of management. Indispensable here as well is the functional strategy of socioeconomic development; there is no substitution between one and

the other but it is obvious that a good system creates conditions for such strategy;

--the economic system and correct developmental strategy combine to form a nation's effective economic policy. It is important at the same time that the assumptions and concepts of this policy be formed with the widespread participation of society and that they find social acceptance without which there will be no cooperation between the authorities and the masses working for the implementation of this policy;

--the principle of joint responsibility issues forth from the principle of cooperation and this is the canon of workers' self-government created as a result of economic reform.

The theses mentioned here as well as others whose discussion would be impossible in this space appear in nearly all of Stanislaw Albinowski's articles. The author formulates conclusions in regard to the critical state of our economy and these always represent definite conclusions resulting from thorough knowledge of economic theory and practice. These proposals and concepts are /controversial at times but they always pertain to the basic issues of our economy and the ways of lifting it out of the crisis/.

Albinowski writes in the introduction to his book which [the introduction] he penned in April of this year [1982]: "It is difficult for me to assess on my own whether and to what degree my journalism as well as my activity in the Commission for Economic Reform have had a tangible effect...." I wish to state /that the odds are decidedly in favor of the author. Many of his proposals have been incorporated into reform solutions; many have become the basis for discussion and have brought about improved solutions while another series of proposals, although not adopted have become an inspiration for further work both in the area of the economic system as well as in elaborating a plan for the development of our economy in the 1980's/.

It is worth pointing out here that as early as in July 1980, Albinowski wrote in POLITYKA about the prerequisites of economic reform of which almost all turned out to be valid and were included in later work of the Commission for Reform (only the draft plan of optimization for the Planning Commission with the aid of computer equipment turned out to be more of a provocative idea than valid).

I do not intend nor do I have the possibility here to discuss Albinowski's respective articles from their meritorious point of view. However, generally speaking this is serious journalism based on extensive theoretical knowledge and on thorough knowledge of our economic practices, undoubtedly resulting from the author's work and experience of many years as well as his knowledge of the problems of the world economy. /In short: one can agree or disagree with Albinowski but he is worth reading./

In discussing the merits of the book, "The Alarm for the Economy Continues To Sound," I wish to point out two additional matters. Thus, the articles presented in the book recall and record many remarks made by our economists and

economic activists with whom the author disputed or agreed. Presently, the reader may make his own determination as to the value of many of the outlooks voiced since September 1980. Thus, Albinowski's book is also /a journalistic contribution to the presentation of the evolution of the views of many economists, socioeconomic activists and decisionmakers from various levels of economic administration/. At the same time, this book should make certain scholars aware that the same laws are binding in press publications as in scholarly publications and that they do not have monopoly over the expression of their opinions on economic and social issues and that sharpness of debate cannot be expressed by offending the opponent.

The collection of articles by Albinowski is in essence /a chronicle of the great social discussion/ which was carried on after August 1980. Albinowski reacts to all of the most important problems resulting from our economic and sociopolitical crisis. He analyzes, makes diagnoses, proposes solutions, debates--he is one of the most actively engaged journalists in terms of these issues.

And the second matter. Thus, I believe that /the publication of Albinowski's articles in book form can fulfill the function of providing for today's urgent need of educating our society in terms of economics/. Very frequently the lack of basic knowledge about the national economy, about the preconditions of its internal and external growth and about the degree of difficulty in overcoming the crisis was expressed in the naivete of many opinions which circulated even among people belonging to the class of intelligentsia. Susceptibility to the demagogic slogans of the "Japanization" of our economy and giving it to polonocentricity in perceiving and understanding our economic problems were also signs of this naivete.

The publications of Stanislaw Albinowski's articles should also play a beneficial role in this respect for two reasons. First of all, because of the bulk of information and debate presented in a professional manner and at the same time within the grasp of the reader who is not an economist by profession. Secondly, because it presents good public discussion which we will need today and tomorrow if we want to take an active part in management and in the shaping of our country's socioeconomic development.

I used the "mode of hope" in writing that Albinowski's book "should play" instead of "will play" its beneficial role. The use of this mode arises from the number of editions of this book which comes to 15,000 copies. Under our present circumstances this is not a small amount but as for the needs which this book can satisfy--it is definitely too small and the price--too high.



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